ANNUAL REPORT 2007

BANK OF CEYLON

Bankers to the Nation

COMPETING WITH THE BEST OF BREED

YOUR BANK HAS BEEN AND REMAINS THE LARGEST AND THE BEST-KNOWN BANK IN SRI LANKA. IT HAS THE LARGEST ASSET BASE VALUED AT RS. 438 BILLION; THE WIDEST CUSTOMER BASE OF ALMOST 7 MILLION ACCOUNTS AND THE LARGEST ON-LINE NETWORK WITH OVER 500 SERVICE POINTS ACROSS THE COUNTRY. IT CONTINUES TO RETAIN THE AA RATING COUPLED TO A STABLE OUTLOOK AWARDED BY FITCH.

YOUR BANK IS THE MARKET LEADER IN DEPOSITS AND ADVANCES, IN TREASURY OPERATIONS, IN THE FOREIGN EXCHANGE MARKET, IN TRADE FINANCE AND IN OFFSHORE BANKING. IT HAS BRANCHES IN LONDON, CHENNAI AND MALE AND WORKS WITH A NETWORK OF OVER SIX HUNDRED CORRESPONDENT BANKS IN ALMOST EVERY COUNTRY IN THE WORLD. IN 2007 IT CONTRIBUTED RS.4 BILLION TO ITS ONLY SHAREHOLDER - THE GOVERNMENT OF SRI LANKA - BY WAY OF INCOME TAX, VALUE ADDED TAX AND DIVIDENDS. IN ADDITION ITS NATIONAL DEVELOPMENT ACTIVITIES BENEFITED THE COUNTRY TO THE TUNE OF RS. 2.4 BILLION BY WAY OF LOW COST FUNDING IN 2007.

WITH STATE-OF-THE-ART TECHNOLOGY, EXPERIENCED AND TESTED HUMAN RESOURCES, YOUR BANK IS WELL POSITIONED TO COMPETE WITH THE BEST IN BANKING AND FINANCE. HAVING DOMINATED THE DOMESTIC MARKET FOR YEARS, IT IS POISED TO EMBARK ON A GLOBAL BANKING STRATEGY WELL BEYOND ITS CURRENT OVERSEAS LOCATIONS.

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VISION

BANKERS TO THE NATION

MISSION

CUSTOMERS

FOSTER MUTUALLY REWARDING RELATIONSHIPS WITH ALL OUR CUSTOMERS, EXCEEDING THEIR EXPECTATIONS

STAFF

GIVE ALL OUR STAFF THE RECOGNITION AND REWARDS TO BE THE BEST TEAM OF ACHIEVERS IN SERVICE EXCELLENCE

OWNERS

BE A PROFITABLE CATALYST FOR EQUITABLE DEVELOPMENT COVERING URBAN AND RURAL AREAS

SOCIETY

PROVIDE WORLD-CLASS BANKING SERVICES ACROSS THE NATION AS A BEACON FOR PROGRESS AND GROWTH

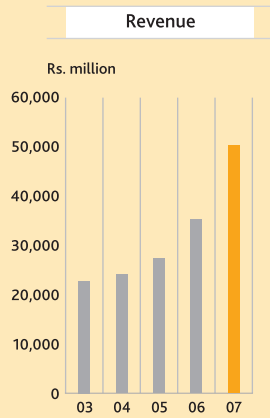
BANK OF CEYLON

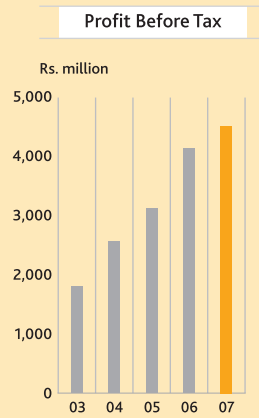
Bankers to the Nation

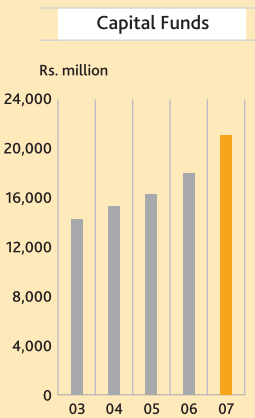
BUSINESS HIGHLIGHTS 2007

- Highest ranked Sri Lankan bank in the Bankers Almanac
- Largest Asset base valued at Rs. 438 billion
- Stable capital base over Rs. 21 billion
- Single borrower exposure capacity in excess of Rs. 8 billion
- Widest customer base with circa 7 million accounts
- Largest network with 295 branches connected on-line
- Leader in treasury operations with over 50% of foreign exchange market
- Leader in NRFC accounts with 31% market share
- Leader in corporate & retail lending with a portfolio exceeding Rs. 290 billion
- Worldwide network with over 600 foreign correspondents
- Only Sri Lankan bank operating a branch in London
- Only Sri Lankan commercial bank with the security of state ownership rated 'AA (lka)/Stable Outlook' by Fitch
- Leader in foreign remittances with over 50% market share

FINANCIAL HIGHLIGHTS







	2007	2006
Gross Revenue (Rs. million)	50,160	35,192
Operating Income (Rs. million)	18,893	17,257
Profit Before Tax (Rs. million)	4,518	4,138
Capital & Reserves (Rs. million)	21,050	17,912
Total Deposits (Rs. million)	308,667	262,676
Total Advances (Rs. million)	291,361	233,618
Total Assets (Rs. million)	437,901	378,299
No. of Deposit Accounts	6,992,961	6,247,612
No. of Advances	1,867,168	1,541,172
Return on Assets - Before Tax (%)	1.11	1.19
Return on Equity - After Tax (%)	14.59	15.33
Liquidity Ratio (%)	21.20	22.19
Capital Adequacy Ratio (%)	11.40	12.30
No. of Permanent Employees	8,253	8,363
Local Branches	304	302
Foreign Branches	3	3
Fitch Rating	AA (lka)	AA (lka)

CHAIRMAN'S MESSAGE

DR. GAMINI WICKRAMASINGHE

YOUR BANK - FROM LOCAL TO GLOBAL

Your bank, Bank of Ceylon ended 2007 reinforcing its position as the No. 1 Bank in Sri Lanka. Its local dominance of the industry is reflected in its near 7 million customer account base, its Rs. 438 billion asset base and its large market shares across several business sectors. Locally by the year 2010 your bank hopes to double both its customer account and asset base. Globally its next growth phase lies in exploring new and emerging horizons overseas, for which it is now well positioned.

A POLISHED PERFORMANCE

Countering a turbulent external environment, financials show robust growth and healthy improvement across all businesses. Revenue from group operations recorded an all time high of Rs. 52 billion and pretax profits increased by near 10% to reach Rs. 5.2 billion in the year under review. Efforts of your bank in national development activities at preferential rates in addition to commercial banking took formidable strides. Adjusting for such development activities across the country would increase reported profits to Rs. 7.1 billion while the net profit would rise from the reported Rs. 3.3 billion to Rs. 4.6 billion. In addition focused attention reduced the NPA Ratio of the group from 6.20% in 2006 to 3.97% in 2007. Today your bank is the clear market leader with regard to inward remittances. In 2007, it handled Rs. 148 billion representing over 50% of the inward remittances routed to Sri Lanka. Based on these and other factors, your bank retained its 'AA (lka)' rating awarded by Fitch.

A MIXED ECONOMIC OUTLOOK

The global economy is forecast to grow at 4.1% in 2008, down from the earlier estimate of 4.9%. The sub prime-mortgage crisis in the US and high crude oil prices have lowered the forecast. The Sri Lanka economy expanded by 6.8% in 2007 and is projected to achieve a growth rate of 7% in 2008. The proposed mega infrastructure projects covering the ports, roads and power sector is likely to stimulate growth this year.

As Bankers to the Nation, your bank is committed to the highest levels of social responsibility.

Your bank performs a unique role in the financial industry of this country and is a provider of services to a range of customers straddling diverse social segments.

GENERATING NEW PRODUCTS AND PUSHING FOR NEW MARKETS

A major goal of your bank is to achieve a substantial growth in deposits in the coming year. This is to be accomplished through a smart combination of new products, enhanced IT services and entering new markets.

The pending amendments in 2008 to the Insurance Act will permit banks along with other corporate bodies to engage in the direct sale of insurance policies. This will provide a new opportunity to start linking its existing loan and deposit products with new insurance products. Taking such innovation further will enable the combination of agricultural loans with crop insurance providing protection against natural disasters and unforeseen weather patterns.

ENHANCING GOVERNANCE STRUCTURES

Your bank continues to improve its governance structures in order to balance conformance with performance. On the one hand it is deeply committed to ensuring the highest levels of transparency, accountability and integrity. On the other its governance processes also seek to achieve better levels of business performance and create enduring value for all its stakeholders.

The Board consists of Non-Executive Directors each of whom brings a wide range of skills and experiences to its deliberations. In 2007 the Board adopted a new 'Code of Best Practice on Corporate Governance', which applies to all levels. The Code is modeled on the internationally accepted principles as well as the guidelines issued by the Central Bank of Sri Lanka. A Corporate Governance Committee has also been established to monitor its implementation.

GENERATING SOCIAL WEALTH

As Bankers to the Nation, your bank is committed to the highest levels of social responsibility. Sustainability is an integral part of its business practices and reflects responsibility as the leading financial institution in the country.

Your bank performs a unique role in the financial industry of this country and is a provider of services to a range of customers straddling diverse social segments. While its products are structured to meet the many needs of its customers, it also ensures that its operations are conducted according to the highest standards expected of a socially responsible corporate citizen. It is committed to enhancing the well-being and the prosperity of all the communities within which it operates. In doing so it provides these communities with the know-how, guidance and financial assistance they need to achieve their own goals, within a broad framework of equitable national development.

In 2007 your bank contributed Rs. 4 billion to its only shareholder, the Government of Sri Lanka by means of value added tax, income tax and dividends. This is equivalent to 63% of operating profit derived from normal banking activities.

MOVING INTO A NEW PHASE

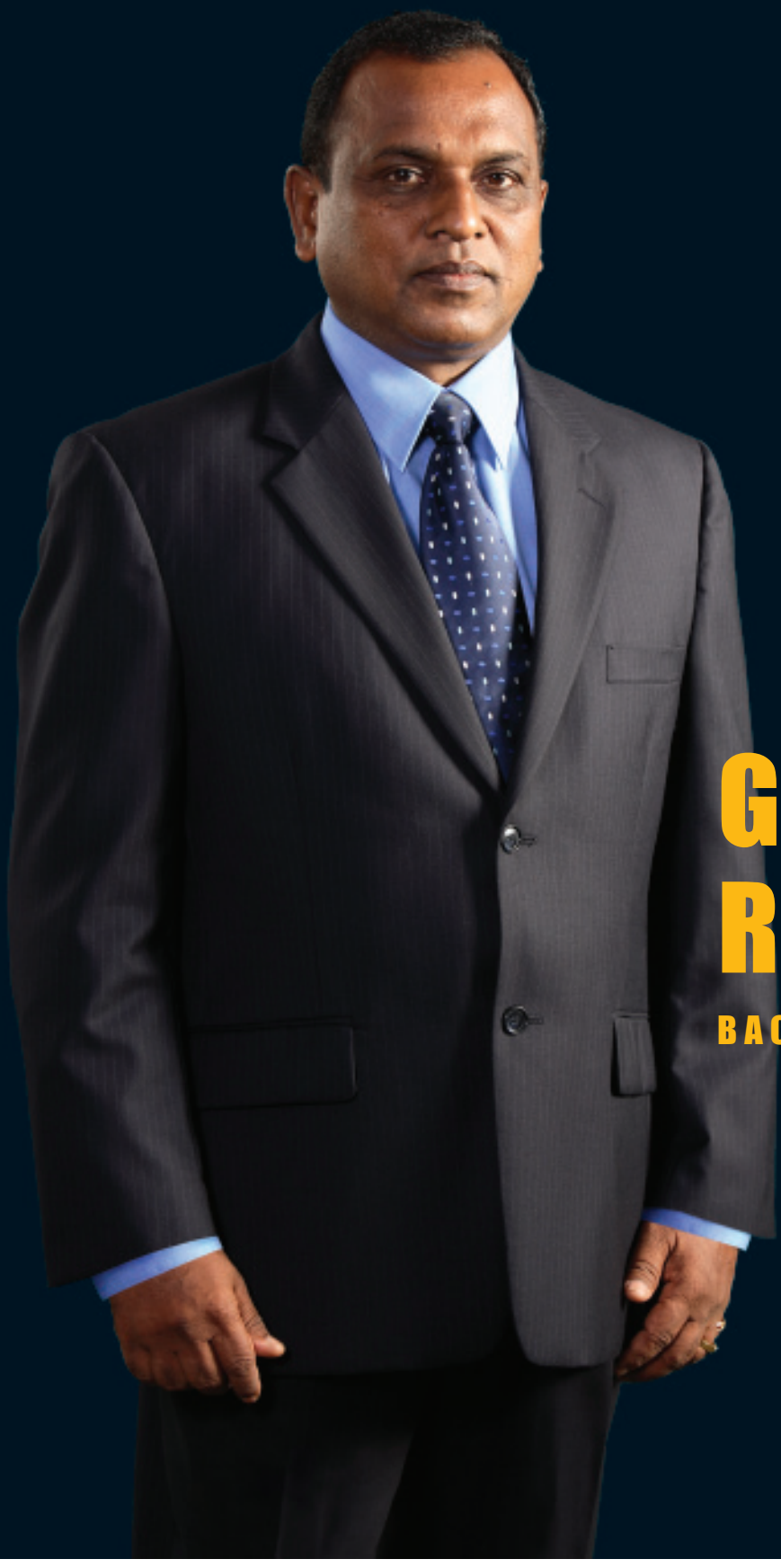
Your bank is poised to move into a new phase of its operations. Having established itself as No. 1 in banking locally, it is seeking now to look for new opportunities in a rapidly globalising world. Branches in London, Male and Chennai are already well established and they will look for fresh opportunities in these countries. In addition there are many new opportunities in the global market, which remain unexploited that will form a part of that next phase of growth.

ACKNOWLEDGEMENT

I take this opportunity to convey my gratitude to Mr. Udayasri Kariyawasam, Chairman until mid May 2007 for the contribution made and also to the Board of Directors for their support over the past year. I also thank the General Manager, staff, all the Trade Unions represented in the Bank, customers and other stakeholders for their dedication and loyalty in making the past year a rewarding one in many ways. I extend my appreciation to the Government, His Excellency the President, Mahinda Rajapakse who is also the Minister of Finance and Planning, Dr. P B Jayasundera, the Secretary to the Ministry of Finance and Planning, Mr. Ajith Nivard Cabraal, the Governor of the Central Bank, Mr. S Swarnajothi, the Auditor General, Mr. C R de Silva P.C. the Attorney General and their respective officials for guidance and support.

I look forward to another year filled with activity building on our No. 1 position.

Dr. Gamini Wickramasinghe
Chairman
18 March 2008



GENERAL MANAGER'S REVIEW

B A C FERNANDO

YOUR BANK - SOLID AS A ROCK

Your bank, Bank of Ceylon, delivered yet another rock solid performance in 2007. Given its range of products and services available across the country via its network covering all customer segments, it ended the year dominating the economic landscape of Sri Lanka. Continuing to play its role as a catalyst in national development, your bank maintained and expanded its presence in those areas that are under-served across the island. It has set new standards for banking professionalism in this country and continues to be a trailblazer with new ideas.

Your bank commenced 2007 with the objective of delivering a solid financial performance and strengthening its capacity for sustained value addition in the future. It is proud to have achieved both these goals. While continuing to deliver value in the short-term, it must build capacity to deliver consistent and sustainable profits in the years to come.

Revenue of your bank grew by 43% during 2007 to reach an all time high of Rs. 50 billion. Profit before tax was Rs. 4.5 billion and profit after tax was Rs. 2.8 billion. The aggregate asset base grew by 16% and reached an impressive Rs. 438 billion at the end of the 2007. Once again it was an all time high and surpasses by far the asset base of any other local bank.

Dominance of the industry is reflected in its expanding asset base and the wide range of customers served over a large geographical area. Its deposit base grew by 18% or Rs. 46 billion to reach Rs. 309 billion at the end of the year. The customer base is spread over diverse social profiles and includes all levels of economic activity. A capital position of Rs. 21 billion enabled the reporting of a capital adequacy ratio of 11.4%. The NPA Ratio (Non-Performing Assets) declined from 5.82% in 2006 to 3.89% in 2007 and its provisioning policies are well above the required regulatory level.

RETAIL BANKING

Your bank continued to market its wide range of retail products and services through its extensive branch network. Several new products were introduced and existing products modified to adapt to changes in the market and changing lifestyles.

One of the highlights of the year was the door-to-door countrywide marketing campaign conducted on three weekends. The entire workforce participated in the campaign and apart from the new business generated, it also resulted in solidarity and goodwill among all levels of staff.

Continuing to play its role as a catalyst in national development, your bank maintained and expanded its presence in those areas that are under-served across the island. It has set new standards for banking professionalism in this country and continues to be a trailblazer with new ideas.

CORPORATE BANKING & OFFSHORE BANKING

Your bank has progressively advanced its share of the corporate banking market in Sri Lanka via custom-built solutions and close relationships with its customers. Its strength is its ability to understand the special needs of the corporate customers closely and reputation as a steady and reliable partner.

Advances to the corporate sector grew by 19% in 2007. Lending to the corporate sector continues to be spread over a well-diversified portfolio covering all sectors of the economy. Significant financing was provided for tea, rubber, gas and telecommunication industries and for a substantial national housing scheme.

Continuing to harness the power of technology and expertise in banking, two new software packages, namely 'BankTrade' and 'ClientTrade' were introduced, which will enable corporate customers to attend to their trade finance needs more effectively. I-Net, which enables customers to view transactions online, also increased in popularity.

Your bank increased its share of the offshore market. The solid reputation and corporate relationships that have been built in other areas have assisted in penetrating this segment of the market. In this connection, special mention should be made of financing government and private initiatives to the value of US$ 28.5 million in the Maldives.

TREASURY

Treasury had another challenging but successful year. With both loans and deposits rising by significant levels, it handled enlarged volumes in both local and foreign currency. A syndicate loan of US$ 210 million was arranged while credit lines with foreign and local banks were enhanced.

Treasury is another area marked for capacity enhancement. As a part of this initiative, dealing room facilities have been upgraded and position reporting has been automated. New recruits have been selected and trained as dealers. A middle office has also been formed and strengthened.

Your bank has a global network of over 600 correspondents and works hard at maintaining good relationships with them. The Inward Remittances Department has been strengthened with in-house

developed software to interface with the core banking system. The in-house developed BoC *e*-Cash system has been established in various locations including the Middle East, Australia, Singapore, Greece and London. Your bank has also joined several funds transfer schemes with its correspondents to enhance services to migrant workers in the Middle East, Italy, South Korea, Lebanon and Cyprus.

INFORMATION TECHNOLOGY

This has been a major area of focus over the past few years and 2007 was no different. Over the last few years your bank has made substantial investments in state-of-the-art IT systems to ensure that its customers experience world class services. These investments will continue in the future.

In 2007, the Bank continued with its plan to connect all branches on-line. At the end of 2007 the network connected by the new ICBS system stood at 295 branches, 72 extension offices and 203 ATMs. This network will be steadily expanded during 2008. Trade finance and treasury operations have also been boosted through the acquisition of new IT systems, which have introduced industry standard processes.

Apart from core areas, many other aspects of operations have also been strengthened through new IT systems. Inward remittances, credit information (CRIB), payments, electronic funds transfer and points of sale have all been enhanced with new systems.

WAY FORWARD - FOCUSING ON FOUR AREAS...

Future growth plans of your bank will be driven by investments in four key areas. They are human resources, deposit mobilisation, IT and risk management.

New investments in human resources will be a key part of future expansion plans. Staff will be exposed to new opportunities for growth with every attempt being made to produce capable, dependable and competent bankers. The goal is to create leaders who are technically skilled, sober in judgment with demonstrated integrity, to lead the institution in the years to come. Consultants have already been engaged in this connection.

Deposit mobilisation will also be a part of future growth strategy. Maximum use of its large on-line branch network and custom-built products will be made to carve out new markets and enhance its already substantial deposit base.

IT will be the third key driver. Substantial investments in IT is already paying dividends. This process will continue in all areas of operations. Investing in state-of-the-art technologies will continue, accompanied by support systems, staff skills and the environment to ensure the retention of its competitive edge.

Risk management is a new area that will be developed fully. Its relevance is self-evident and its need is increasingly being stressed. Modern risk management is a highly specialised function and the Bank intends to develop it with appropriate technology and skilled staff.

INTERNATIONAL ISSUES

2007 came close to being one of the darkest years in international banking. The industry suffered a significant setback but given inherent strengths resurgence without too much delay is likely. What these developments establish is that while innovation is necessary for the industry to progress, it does carry with it certain inherent risks, which require close management. Innovation and the creation of new products is an essential part of the banking business, yet they must be balanced against the core values of diversification and capital strength that have been driving banking over the years and still provide its foundation.

ACKNOWLEDGEMENT

Your bank had a challenging year in 2007. It is proud to have overcome these challenges and looks forward to 2008 knowing that it remains the No. 1 Bank in Sri Lanka by far.

I would like to acknowledge all those who helped the institution in the past year - specially the Secretary to the Treasury, the Governor of the Central Bank of Sri Lanka, the Auditor General, the Attorney General, the Chairman of the Strategic Enterprises Management Agency and all officials involved in those institutions.

Special thanks are due to the employees and Trade Unions for their loyalty, dynamism and support. They have been the true drivers of the organisation and will continue to power it in the future too.

I am grateful to the Chairman and other members of the Board of Directors for their support and guidance and look forward to another successful year.

B A C Fernando
General Manager
18 March 2008

BOARD OF DIRECTORS

DR. GAMINI WICKRAMASINGHE - Chairman

Dr. Wickramasinghe was appointed to the Board of Bank of Ceylon as the Chairman in May 2007.

He holds a Masters Degree in Systems Analysis from the University of Aston, Birmingham, UK and a Doctorate in Business Administration (DBA) from Manchester Metropolitan University, UK. He is a Fellow of the Chartered Management Institute (FCMI), UK and a Fellow of the British Computer Society (FBCS).

With over a decade of extensive senior level experience obtained in the United Kingdom and Belgium, he returned to Sri Lanka in 1983 and founded the Informatics Group of Companies. He is currently its Managing Director, one of the largest software development houses in the country.

Dr. Wickramasinghe is the Chairman of the Securities and Exchange Commission of Sri Lanka and also of the Insurance Board of Sri Lanka. He also holds directorships in several subsidiary and associate companies of Bank of Ceylon.

SUMITH ABEYSINGHE - Ex officio Director

Mr. Abeysinghe was first appointed to the Board of Bank of Ceylon in May 2004 and re-appointed in February 2006. He is the ex officio Director on the Board.

He holds a Bachelor of Arts (Hons.) Degree in Geography from the University of Kelaniya and a Masters Degree in Economics from the University of New England, Australia.

Mr. Abeysinghe is a Deputy Secretary to the Treasury. He has previously held senior positions in the Ministry of Finance and Planning. Among them were Director General of National Budget and Director of Fiscal Policy and Economic Affairs.

He is also an ex officio Director of Securities and Exchange Commission of Sri Lanka and the Insurance Board of Sri Lanka and holds directorships in several other companies.

CHAMINDA KUMARA KULARATNE - Director

Mr. Kularatne was first appointed to the Board of Bank of Ceylon in December 2005 and re-appointed in June 2007.

He holds a Bachelor of Laws Degree (LLB) and is an Attorney-at-Law. He is an Assistant Secretary to the President and is the President's Co-ordinating Secretary to the Ministry of Finance and Planning.

GUNARATNA GALLAGE - Director

Mr. Gallage was first appointed to the Board of Bank of Ceylon in January 2006 and re-appointed in June 2007.

He is an Attorney-at-Law by profession counting over seventeen years practice in the Civil Courts. He holds a Bachelors Degree in Arts and a Postgraduate Diploma in Education.

Mr. Gallage had been a member of the Compensation Tribunal at People's Bank and a member of the Rent Board of Review for two consecutive terms.

He is on the Board of Hotels Colombo (1963) Limited (GOH).

RAJU SIVARAMAN - Director

Mr. Sivaraman was first appointed to the Board of Bank of Ceylon in January 2006 and re-appointed in June 2007.

He is a Chartered Architect holding a Masters Degree in Architecture (MSc Arch) and is also a Fellow Member of the Sri Lanka Institute of Architects. His experience in the field of Architecture and Management runs over 25 years.

He is the Associate Consultant of Plan 3 Architects in India, the Managing Director of Arch-Triad Consultants (Private) Limited, an Architectural Consultancy firm since 1980 and a Director of Ram Developers (Private) Limited and Ceylease Financial Services Limited.

Mr. Sivaraman is a member of the National Police Commission of Sri Lanka.

DR. BUDDHADASA KALUARACHCHI - Director

Dr. Kaluarachchi was first appointed to the Board of Bank of Ceylon in January 2006 and re-appointed in June 2007.

He holds a MBBS degree from the University of Ceylon, Faculty of Medicine, Colombo.

He has served as a Medical Officer in several Government Hospitals in Sri Lanka. He has also been a company Medical Officer for leading Hotels in Colombo, several International Airlines and had been a consultant to several Multinational Companies. In addition he had been involved in their administration and marketing services. He has also been a medical officer to several Embassies and High Commissions located in Sri Lanka. He was a founder Director of Asiri Hospitals Limited.

Dr. Kaluarachchi has undergone Postgraduate Training and has worked in the fields of General Medicine, Paediatrics, Chest Medicine and Cardiology in leading National Health Service Hospitals in the United Kingdom. He has also been a General Medical Practitioner (Principal) in the National Health Service in the United Kingdom. Whilst in the United Kingdom he has also served as a Consultant to several Multinational Companies and as a Clinical Assistant at the regional local hospitals.

Presently, Dr. Kaluarachchi is the President of the Ceylon Association for the Prevention of Tuberculosis (CNAPT), the President of the Ruhunu Cultural Institute and also a Member on the Board of Management of Colombo YMBA.

He is also the Chairman of Hotels Colombo (1963) Limited (GOH) and a Director of Lanka Hospitals Corporation Limited (Apollo Hospitals).

V KANAGASABAPATHY - Alternate Director

Mr. Kanagasabapathy was appointed as the Alternate Director to Mr. Sumith Abeysinghe, ex officio Director, in March 2006.

He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds a Masters Degree in Public Administration from the Harvard University.

He is presently the Financial Management Advisor to the Ministry of Finance and Planning with over thirty years of public service in several capacities.

Mr. Kanagasbapathy is the President of the Institute of Public Finance and Development Accountancy, a member of the Governing Council of the Association of Accounting Technicians of Sri Lanka and Chairman of the Board of Directors of Distance Learning Centre.

He is on the Boards of several Public Enterprises and Government linked Companies. Among them are Hotel Developers Lanka PLC, De La Rue Lanka Securities and Currency (Private) Limited and Ceylon Petroleum Storage Terminals PLC.

JANAKI SENANAYAKE SIRIWARDANE

Secretary, Bank of Ceylon/Secretary to the Board

Attorney-at-Law, LLB, MBA

"NURTURING YOUR PROGENY"

The Bank's transformation is reflected by the shift from 'Us' to 'You'. As Bankers to the Nation we are today driven by customers from all walks of life. It is you who shape our products, our processes and our potential. It is you who shape our goals.

MANAGEMENT'S DISCUSSION & ANALYSIS

BACKGROUND

Your bank, Bank of Ceylon (BoC), is the first State-owned commercial bank in Sri Lanka established by special statute, namely the Bank of Ceylon Ordinance dated 1 August 1939. Now a diversified financial services organisation, its business is to provide a broad range of banking and financial services to consumers, corporate customers and the Government of Sri Lanka (GoSL). Today, it banks circa 7 million customer accounts across all 9 provinces via 304 full service branches in Sri Lanka and 3 overseas branches. Its branch in the City of London is one of the oldest, the respective banking licence dating back to 1949. The Bank is subject to examination and regulation by the Central Bank of Sri Lanka and is rated AA (lka)/ Stable Outlook by Fitch. Its Board of Directors reflecting state ownership comprises Government nominees, who are professionals from a variety of disciplines and experiences and includes representation from the Ministry of Finance. At year-end 2007, BoC employed 8,253 full time (permanent) and 1,705 contractual, outsourced and casual employees in Sri Lanka and in its overseas branches. BoC is market leader or holds significant market shares in Loans & Advances, Deposits, NRFC Accounts, Inward Foreign Exchange Remittances, Offshore banking, Treasury products and Micro-banking.

Your bank is managed along the following segments and product lines -

- **Consumer Banking Group -** Consumer Lending & Finance (Real Estate/Mortgages, Student Loans, Auto Loans); Retail Distribution & Banking (Branches); Commercial Business (SMEs & Middle Market Commercial Banking); Micro Finance; Development Banking and Leasing.
- **Corporate Banking Group -** Debt based products (Term Loans, Overdrafts, Project Finance, Leasing, etc.) and Transaction Services (Cash Management, Trade Services, Agency Services) for large SMEs and Corporates.
- **International & Treasury Division -** Foreign Exchange, Money Market, Local & Foreign Currency Funding, Fixed Income & Equity Trading; Correspondent Banking and Overseas Branches.

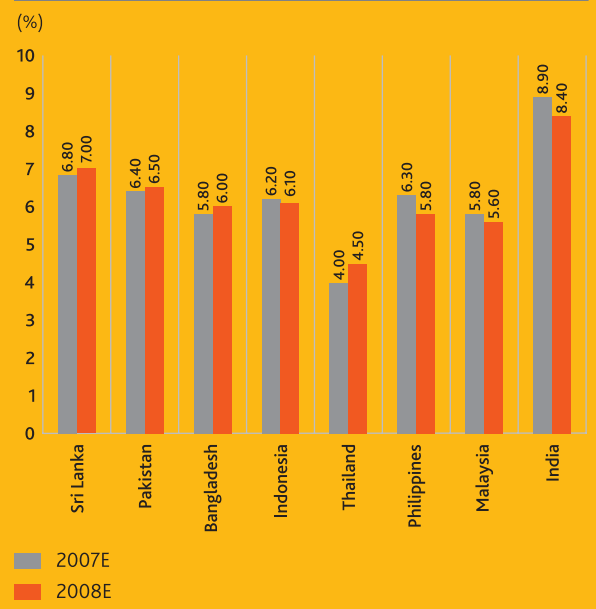
ECONOMIC/POLITICAL LANDSCAPE

Your bank faced a relatively calm and benign global economic/political environment as it commenced operations in 2007. Most forecasts for global growth was at around 4% with inflation and interest rates under good control. At the time, there were almost no indications that the year would end with many financial markets in turmoil. The forecast for the local economy was also somewhat similar with growth patterns holding, inflation and interest rates coming under control and terrorist activity also abating. Although still hampered by various threats and shocks - Oil, Tsunami, Weather and Security - the economy was expected to be resilient and continue to perform positively. The view of your bank at the time and now remains that amidst the relatively negative features there are also several positive and attractive characteristics.

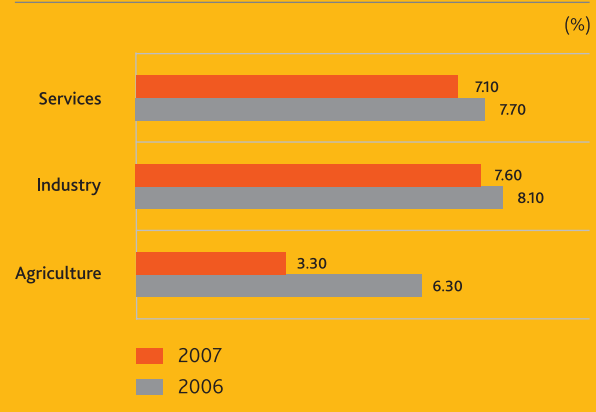
Taking all of them together, economic growth will be sustained with no reversal in doubling the per capita GDP to US$ 3,000 over the 10-year plan period put forward by the Government of Sri Lanka. The exhibit below illustrates the economic environment in Sri Lanka as viewed by your bank.

Despite the various shocks and threats, the economy performed well during 2007. A graphical presentation that conveys a holistic view of the economy is provided below:

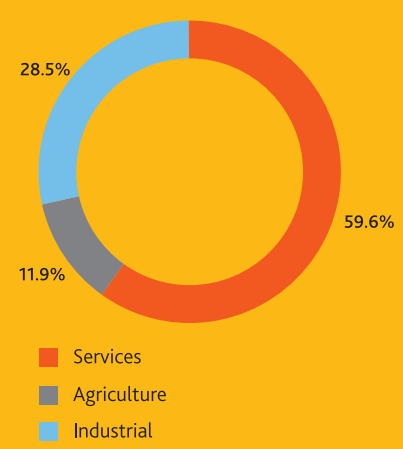
GDP Growth



Sectoral GDP Growth



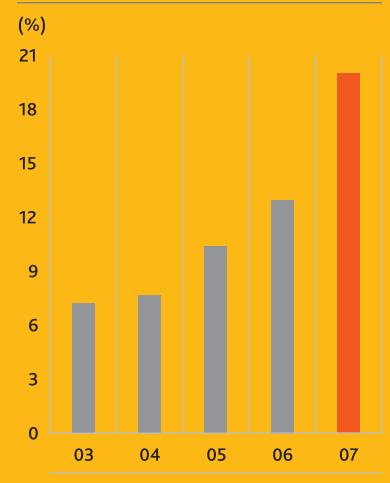
Sectoral GDP Share (%)



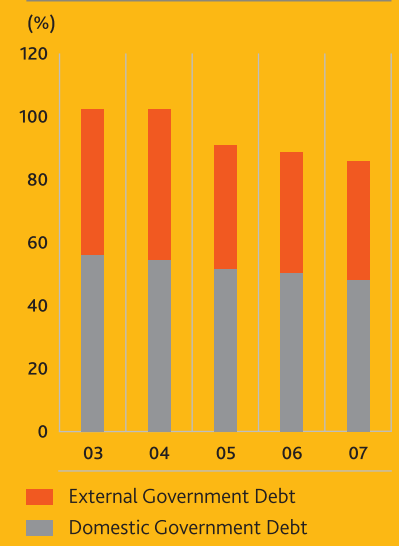
GDP continued to grow and recorded a growth of 6.8% for 2007. The economy is seen to be moving from agriculture to higher value added sectors in industry and services. To some extent assisted by the pressure on the US Dollar, the Rupee has also stabilised in that the last few months has a seen a reversal of the dollar: rupee rate.

Other indicators also depict a relatively well-performing economy despite an increase in violence. In particular are the following key economic variables that indicate a continuation of resilience and acceptable performance.

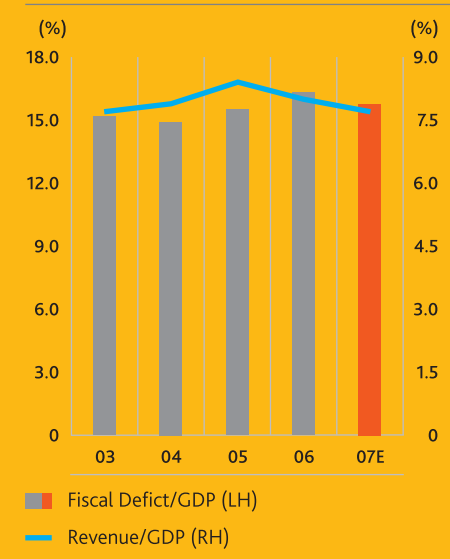
T-Bill Rate



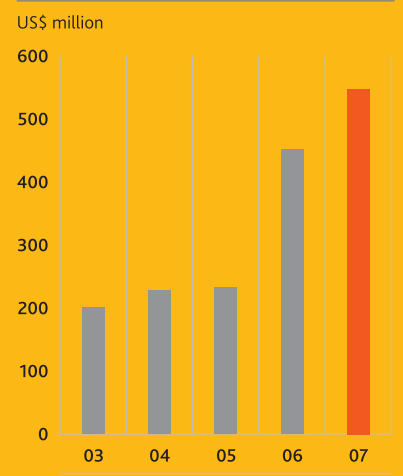
Public Debt/GDP



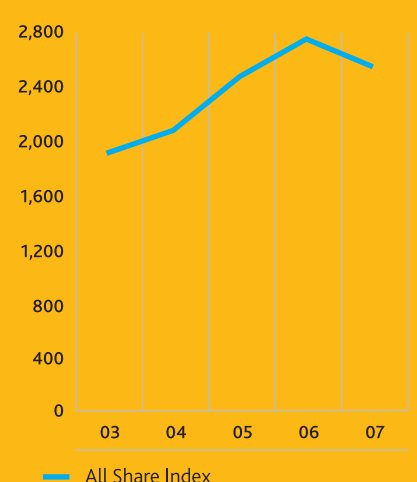
Fiscal Performance



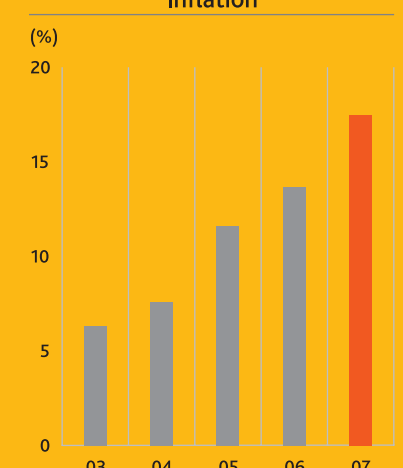
Net Foreign Direct Investment Flow



Stock Market Performance



Inflation



RESULTS OF OPERATIONS

Your bank pursued a focused strategy in the midst of a resilient and an improving economic environment as depicted above, to acquire a significant market presence across several businesses. In doing so, it generated total revenue in excess of Rs. 50 billion in 2007, representing a 43% increase compared to 2006. It is not only the largest aggregate revenue since formation in 1939 but also the largest across the banking industry in Sri Lanka. Growth of the loan business across the Corporate, SME and Consumer Sectors accounts for much of this revenue performance. Growth of other businesses also, such as Trade Finance, Cash Management, Treasury Operations, etc. contributed in terms of Fees and Commissions. Based on such revenue, your bank posted pretax profits at Rs. 4.5 billion, nearly Rs. 400 million more than the Rs. 4.1 billion reported in 2006. Although not significant, representing only a 9% increase over 2006 pretax profits, it indicates that the pursuit of market share strategies have not been altogether at the expense of profitability. Notably, ROA declined only marginally from 1.2% in 2006 to 1.1% in 2007.

For easy reference, results reported for 2007 and comparative numbers for the previous year are provided below, with analysis of important and significant numbers. Among them is Net Interest Income, Other Operating Income, Operating Expenses and Loan Loss Provisions.

Income Statement

	2007 Rs. mn.	2006 Rs. mn.	Growth Rs. mn.	Growth %
Total Income/Revenue	**50,160**	35,192	14,968	42.53
Net Interest Income	**12,833**	11,080	1,753	15.82
Other Operating Income	**7,344**	7,962	(618)	(7.76)
Operating Income	**20,177**	19,042	1,135	5.96
Operating Expenses	**(14,488)**	(13,535)	953	7.04
Profit Before Provision	**5,689**	5,507	182	3.30
Provision for Loan Losses	**(1,171)**	(1,369)	(198)	(14.46)
Profit Before Tax	**4,518**	4,138	380	9.18
Income Tax	**(1,675)**	(1,511)	164	10.85
Profit After Tax	**2,843**	2,627	216	8.22

Net Interest Income

	2007 Rs. mn.	2006 Rs. mn.	Growth Rs. mn.	Growth %
Total Interest Income	**42,286**	26,823	15,463	57.65
Total Interest Expense	**29,453**	15,743	13,710	87.09
Net Interest Income	**12,833**	11,080	1,753	15.82
Net Interest Margin (%)	**30.35**	41.31		
Interest Margin (%)	**3.14**	3.17		

As indicated above, aggregate interest income in 2007 amounted to Rs. 42 billion, representing a 58% increase over 2006. Much of this increase resulted from expanded customer advances and loans - the outcome of the strategy to grow market share across the various businesses of your bank. A larger Treasury Bill portfolio in comparison with 2006 also yielded increased interest income. Interest expense on the other hand amounted to Rs. 29 billion in 2007, an increase of 87% attributable to rising interest-bearing liabilities, their mix which moved from Saving to Fixed Deposits, as well as their relative cost.

During 2007, as aggregate credit demand expanded, to some extent predicated on consumption, competition for deposit funds intensified with market interest rates rising to unprecedented levels. Accordingly, although interest income generated a wholly

satisfactory growth of 58%, its benefit was nullified to a large extent as interest expenses expanded at a faster rate i.e. at 87%. Hence the net interest margin suffered in 2007 registering a decline of 11% from 41% in 2006 to 30% in 2007. Measures are afoot to mitigate this margin compression mainly by structurally reducing the reliance on borrowed funds in the market and high cost deposits by re-balancing the funding mix, generating lower priced sources of funds and refraining from competitive bidding for large deposit balances sourced within the State sector.

Other Operating Income (OOI)

	2007 Rs. mn.	2006 Rs. mn.	Growth Rs. mn.	Growth %
Foreign Exchange Income	**1,179**	2,261	(1,082)	(47.85)
Recovery of Non - Performing Advances	**1,286**	1,785	(499)	(27.96)
Net Fee Based Income	**2,571**	1,790	781	43.63
Other incl. Investment Income	**2,308**	2,126	182	8.56
	7,344	7,962	(618)	(7.76)

Aggregate OOI declined during 2007 compared to 2006 - a decline of Rs. 618 million or of 7.8% during the year. This reversal was occasioned mainly by the global decline suffered by the US$. As a result, it began to depreciate against the rupee towards the 3rd quarter of 2007, thereby reversing a trend which had become a structural phenomenon. Whether such a decline is going to be a permanent feature remains to be seen, but its impact has been severe in the context of your bank - a near 50% reduction in FX Income from Rs. 2.3 billion in 2006 to Rs. 1.2 billion in 2007. Off-setting this substantial decline during 2007 was the equally sharp increase in Fee Income which expanded by over 40% to Rs. 2.6 billion in 2007 from Rs. 1.8 billion in 2006. Again such expansion is a testament to the focus on Corporate/SME businesses as well as on sources of income that do not utilise the Balance Sheet i.e. fee income as opposed to loan interest. Focused recovery efforts also contributed to the OOI performance. Finally investment income together with mark-to-market benefit arising from equity investments transferred to trading stock generated a rise of 9% over 2006 to Rs. 2.3 billion, also helped contain the decline in OOI to a marginal amount.

Operating Expenses

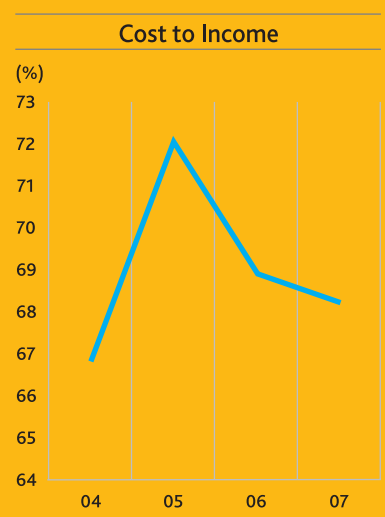
Operating Expenses of your bank continued to rise during 2007, the expense base increasing by over a billion Rupees or by 7% over 2006. Although, the 7% increase is well under the prevailing rate of inflation, action now is required to curtail it ballooning further. The 9% decline in Staff Retirement Benefit due to a reduction of Pensionable Staff was a purticularly good piece of news. With aggregate operating costs for 2007 at Rs. 14.5 billion, average monthly operating costs have escalated to Rs. 1.2 billion.

Operating Expenses

	2007 Rs. mn.	2006 Rs. mn.	Growth Rs. mn.	% Growth
Personnel Costs	**6,574**	6,193	381	6
Staff Retirement Benefits	**2,195**	2,406	(211)	(9)
Premises, Equipment & Establishment Costs	**1,928**	1,724	204	12
Other Overhead Expenses	**1,919**	1,446	473	33
VAT	**1,872**	1,767	105	6
Total	**14,488**	13,536	952	7
As % of Total Revenue	**29%**	38%		

Personnel costs representing 45% of the total operating expense base increased from Rs. 6.2 billion to Rs. 6.6 billion mainly due to the rise in the cost of living index. Premises, equipment & establishment costs and other overhead expenses also reported increases on account of inflation during this year.

Despite the unfavourable increases in the operating expense base, measured against aggregate revenues generated in 2007, shows a significant improvement - a 9% decline during 2007 to 29% compared to 38% in 2006 - indicating an efficiency gain that could be harnessed going forward. The improvement when measured in terms of Cost to Income is not so pronounced, although it too reflects a marginal improvement - a reduction from 69% to 68% as indicated by the exhibit below:



Among the proposals under consideration to obtain such efficiency gains are the following - the introduction of a pay for performance scheme, a review of the Pension Fund to minimise the burden of contributions, investment in IT without incremental headcount, etc.

Annual Provision

Your bank set aside Rs. 1.2 billion in provisions for losses in terms of non-performing assets (NPAs) in 2007 compared to Rs. 1.4 billion in 2006. The decline in provisioning in the midst of a substantial growth in the Loan Book reflects cautious origination and closer monitoring. It also reflects decline in transfers from regular to non-performing assets and adequate provisioning for deteriorating exposure.

AGGREGATE ASSETS

Your bank when it reported in 2005 was the first to breach the Rs. 300 billion mark in total footings for any Sri Lankan bank. For 2007, your bank has raised the peg again - it reports Balance Sheet footings in excess of Rs. 425 billion - at Rs. 438 billion it remains the largest bank by assets size and hence continues to dominate the local economy. The increase in total assets representing an uplift of 16% over 2006 resulted from a significant increase in loans outstanding, inter-bank activity and investment securities. The percentage increase and the absolute size of the asset base signifies not only another milestone but a deepening of our embedded bank strategy - the strategy to become embedded in the activities of the country, a building-block in the national economy and be the infrastructure supplier of credit and liquidity to the nation, truly embodying the aspiration, Bankers to the Nation, much like suppliers of essential services such as water or power to a country. The thrust of the embedded bank strategy is never to be unplugged from commercial and development activity and strengthen the position as the No. 1 Bank in Sri Lanka.

Below an analysis of the Balance Sheet of your bank in some detail is provided. First the asset base is reviewed and then the liabilities and capital base.

Liquid Assets

Several structural changes occurred to the asset base in 2007. Liquid assets have steadily declined from constituting some 25% of the Balance Sheet in 2005 to 14% in 2007. This reduction does not in any way indicate a decline in the liquidity position of your bank - it continues to maintain the Liquidity Ratio as stipulated by the Central Bank of Sri Lanka (CBSL). It simply means that a portion of liquidity has been transferred to earning assets without damaging the liquidity position. This decline in liquid assets is in line with a Funding Plan that tracks treasury engagements of your bank with the Money Markets and ensures the availability of adequate unencumbered high quality assets for discount in the event of stress.

Loans & Advances

Loans & Advances is the other asset category indicating major change over the years - moving from constituting 55% of the Balance Sheet in 2005 to 66% in 2007. In absolute terms it records an increase to Rs. 291 billion in 2007 from Rs. 234 billion in 2006 - an increase of 24% representing a growth of Rs. 57 billion. As mentioned elsewhere it results from a strategy to grow market share and build a significant and robust banking business encompassing the Corporate and the SME Sectors including Infrastructure Finance as well as the Consumer Portfolio. The strategy of your bank remains to engage the major players in the market as well as those aspiring to follow them. The plans of your bank include support for individuals consumers be it for education, housing or any other need in support of their chosen lifestyle.

Much of this expansion has come from significant lending to the private sector with a decline in direct loans to Government. Such diversification away from direct Government lending is also in accordance with the strategic intent of your bank to ensure that a robust business base is available to it, when hostilities end and reliance on Government business declines. Diversification has not occurred only in terms of Government and Non-Government. The Loan Portfolio is diversified not only across the major industry sectors but also to obtain some balance across the geography of the island. Industry diversification is evident by the exhibit below:

Balance Sheet Assets

	2007		2006		2005	
(Rs. million)	**Amount**	**% of Total**	Amount	% of Total	Amount	% of Total
Cash and Short-Term Funds	**9,245**	**2.1**	7,790	2.1	6,127	1.9
Balances with Central Banks	**17,253**	**3.9**	17,106	4.5	13,933	4.4
Other Liquid Assets	**62,112**	**14.2**	70,724	18.7	78,271	24.5
GOSL Restructuring Bonds	**8,547**	**2.0**	8,547	2.3	17,883	5.6
Gross Loans & Advances	**291,361**	**66.5**	233,618	61.7	176,062	55.0
Provision for Loan Losses	**(8,914)**	**(2.0)**	(10,380)	(2.7)	(10,312)	(3.2)
Investment Securities	**29,698**	**6.8**	26,643	7.0	12,670	4.0
Non-Interest Earning Assets	**28,599**	**6.5**	24,251	6.4	25,088	7.8
Total Assets	**437,901**	**100.0**	378,299	100.0	319,722	100.0

Risk Concentration

"CHILD'S PLAY"

Today, banking is child's play. This is because as Bankers to the Nation we have invested in some of the most advanced technology that brings the Bank into your office, into your home and into 'wherever you may be'.

It should be noted that expansion of the Loan Portfolio is managed within strict parameters encompassing origination and regular review as well as a rigorous internal audit programme. To ensure risk management is practised across the portfolios, changes are envisaged, particularly via the adoption of Good Governance policies, in the approval and review of all loans.

Non-Performing Assets (NPAs)

Your bank has shown a significant downward movement in NPAs both in absolute and percentage terms. As at 31 December 2007 NPAs amounted to Rs. 11.3 billion, a decrease of 17% over the previous year NPAs of Rs. 13.6 billion. As a result, the NPA Ratio based on a Loan Portfolio that expanded by 24% to Rs. 291 billion, decreased to 3.9% in 2007 from 5.8% in 2006. If direct loans to Government are excluded, as they do not attract provisions given its undoubted status, the NPA Ratio would decrease further, from 11.7% in 2006 to an industry leading 5.9% in 2007. Such decrease in NPAs and the NPA Ratio resulted from cash recoveries and a combination of write-off of loans amounting to Rs. 1.5 billion fully provided for, but carried as NPA that had exhausted all reasonable attempts at collection and loans re-scheduled from NPA to performing in compliance with CBSL and Sri Lanka Accounting Standards (SLAS). Accordingly your bank is placing more emphasis not only on applying tight credit standards on loan origination but also on regular and continuous review as well as on managing NPAs via specialist work-out teams in an effort to reduce the level of write-offs and NPA.

Recent CBSL estimates indicate island-wide NPAs across the banking and finance industry at close to Rs. 100 billion - a sad reflection of recent lending practices. It is indeed a price that is unsustainable and unacceptable in an industry that is not generating adequate capital accumulation to accommodate an increasingly risky business environment. Such high levels of NPAs debilitate any economy. Your bank echoes the recent publicly stated concerns of CBSL in carrying high levels of NPA. As indicated by CBSL, among the negative outcomes of high NPAs are the following:

- Generally decreasing business confidence
- Tighter new lending rules with access to debt capital denied or delayed
- Cost of capital increasing with Lenders having to recover the losses from the remaining 'good loans'
- Widespread wastage of physical capital stock with large tracts of land and buildings including plant and machinery being 'mothballed' and taken out of use only to perish and deteriorate beyond repair
- Wastage of educated and trained human capital with managers and staff being dislocated with their careers interrupted, reputations shattered and looked upon by society with suspicion
- Risk takers and entrepreneurs being pushed to impossible limits, losing their private wealth with the national stock of entrepreneurs diminishing to alarming levels
- Continuous demand for Treasury/Government hand-outs to maintain staff and property with decreasing levels of productivity and returns.

Accordingly, NPAs needs to be dealt with both effectively and urgently. Doing so generally relates to how the financial system recovers the funds embedded in that asset category at a given time. There are many different options available and it is possible that several others may evolve in the market with the efflux of time.

Recovery via action filed in Court is a widely used process. Rescheduling of NPAs is also a popular mechanism. Neither, however, provides an adequate response to a high level of problem loans. Fortunately experiences elsewhere, particularly in business recovery and special laws to promote such processes and their implementation on a professional basis indicate that other methods can be more effective. Such laws provide for indemnities covering new incoming directors, guaranteed preferential treatment for new capital injection, preferential treatment for new debt, recognition of loan work-outs as a specialist skill and 'freezing' of status. Incorporation of Asset Management Companies (AMCs), issuance of asset backed securities divided between 'good' and 'bad' assets at deep discounts and initiating a market for the sale and purchase of NPAs are others.

The best strategy for dealing with NPAs is, their prevention, based on early warning criteria and effective business turnaround action. Developing and applying such skill, currently under-utilised in Sri Lanka, is important for several reasons. Commencing and continuing a business, particularly in trying and volatile conditions is not an easy task. Failure means a waste of such effort. Businesses use many resources - capital, assets both tangible and intangible, invaluable foreign exchange, business ideas and human skill.

All such factors will be wasted on failure weakening the related business sectors, the banks, the financial system and the economy. Hence business turnaround is an essential exercise for all concerned be they investors, entrepreneurs, lenders, managers or staff.

In terms of the aggregate economy, such a response to the issue of NPAs is likely to yield a better outcome for all its stakeholders by eliminating or minimising wastage. Hence it is in the interest of the national economy and your bank to nurture them to health by taking the lead in developing an appropriate health care system for managing them.

Liabilities

As per the liability side of the Balance Sheet exhibited below, the deposit base continued to dominate contributing some 70% of aggregate funding. Other funding sources, namely Borrowings and NIBLs continued to play their relative roles without much change. Accordingly the funding composition of the Balance Sheet has not changed much over the past 3 years. Their absolute size, however, increased substantially.

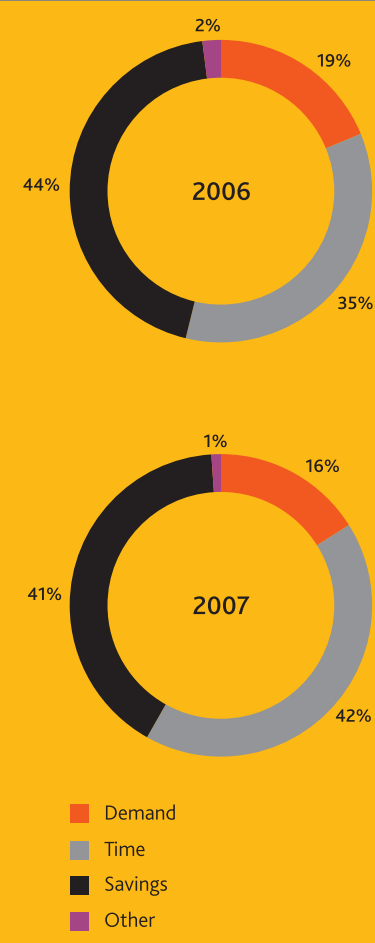
Between 2006 and 2007, the deposit base grew by 18% to Rs. 308 billion, the largest deposit base at any financial institution within Sri Lanka. This growth, however, was less than the expansion in loans & advances, which grew by 24%, with the mismatch having to be financed in the money market via borrowed funds.

Hence the near 10% growth in borrowed funds between 2006 and 2007 which includes the US$ 210 million raised via a syndicate of banks, the largest single external fund raising activity by a Sri Lankan bank in the international debt capital markets. Although the US$ 210 million was raised at less than 1% over LIBOR, other borrowed funds, particularly rupee funds, generated in Sri Lanka came at heavy cost. as the composition of the deposit base changed during 2007. As depicted below, the change in the deposit mix was notable resulting in heavy cost.

LIABILITIES & CAPITAL

	2007		2006		2005	
Rs. million	**Amount**	**% of Total**	Amount	% of Total	Amount	% of Total
Customers Funds	**308,109**	**70.4**	262,169	69.3	232,006	72.6
Deposits from other banks	**560**	**0.1**	508	0.1	506	0.1
Borrowed Funds	**92,921**	**21.2**	84,956	22.5	62,036	19.4
Non-Interest Bearing Liabilities (NIBLs)	**15,261**	**3.5**	12,754	3.4	8,823	2.8
Total Liabilities	**416,851**	**95.2**	360,387	95.3	303,371	94.9
Capital	**21,050**	**4.8**	17,912	4.7	16,351	5.1
Total Liabilities & Capital	**437,901**	**100.0**	378,299	100.0	319,722	100.0

Aggregate Deposit Mix

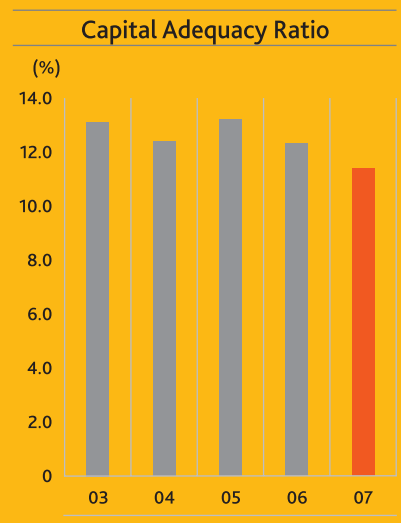


It shows lower cost savings deposits declining from 44% in 2006 to 41% in 2007 while demand deposits also reduced from 19% to 16% in the same period. Conversely, Time Deposits, increased during the period from 35% in 2006 to 42% in 2007. This fluctuating mix of the deposit base added substantially to funding costs, thereby reducing the net interest margin.

Capital

The capital base of your bank continued to expand not only by way of retained earnings, but also by way of a capital injection of Rs. 1 billion in 2007 from the Government. The Government dividend at Rs. 0.8 billion for 2007, however, reduced its beneficial impact.

Be that as it may, your bank is able to report a capital position at year-end 2007 of Rs. 21 billion, an expansion of over 30% since 2005. Although your bank remains adequately capitalised, the exhibit below shows the gradual decline of the Capital Adequacy Ratio (CAR) under BASEL I from 13.2% in 2005 to 11.4% in 2007.



Under BASEL II, the ratio declines to 10.7% adequately above the 10% minimum. The need to reverse the decline by enhancing capital accumulation is a key goal for 2008 and beyond. CAR reflects the capacity of your bank to withstand risks and shocks and undertake expansion and is key to a regulatory ratio tracked by CBSL. Given the commitment of your bank to comply with all regulatory requirements, it has adhered to CAR under BASEL I on a continuous basis in 2007 as per each quarterly report made to CBSL.

In addition to credit and market risk considered under BASEL I, a new capital accord was introduced by the BASEL Committee incorporating a capital charge for operational risk. Referred to as BASEL II, CBSL required all commercial banks to be in full compliance with it effective 1 January 2008 with parallel reporting under it from 2007. Exceeding expectations, your bank has been doing so and in compliance under BASEL II since 2006. It follows the standardised approach for the measurement of credit and market risk, while following the basic indicator approach for operational risk.

It should be noted that the capital base of your bank consists mainly of Tier I Capital being issued equity and retained profits with almost negligible amount in Tier II Capital which consists of subordinated debentures having tenors of 5 years. Such configuration of the capital base implies not only capacity to issue further subordinated debentures that can attract capital treatment under BASEL II, but also that the existing capital base composed of pure equity is of significantly better quality in that it is not subject to any charge and available to absorb unforeseen shocks and systemic risks.

Your bank is presently engaged in upgrading the customer data base. It will enable your bank to move to the higher credit risk measurement approach i.e. the internal rating based system, recommended by the BASEL II Capital Accord at its earliest which will yield better capital allocation based on risk.

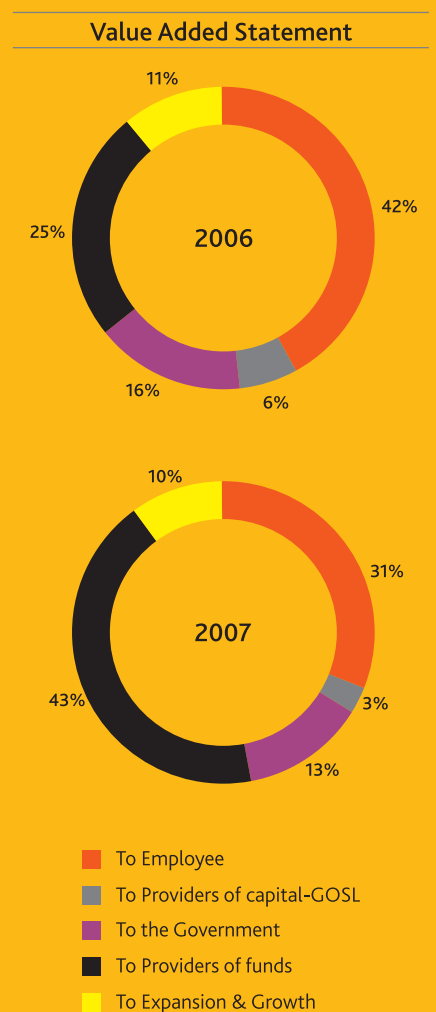
VALUE ADDED STATEMENT

The goal of every enterprise should be to create and realise value, be it for its shareholders or other stakeholders. Your bank, with its vision firmly fixed on its status as Bankers to the Nation, is focused fully on creating maximum value, both directly and indirectly, to the benefit of all its stakeholders. The Value Added Statement can be regarded as social disclosure. The case for its publication is underpinned on aspects of organisational legitimacy, social contract and political theory. Organisational legitimacy alone suggests that management can influence the perception that stakeholders have of the organisation and in this way obtain the support of those stakeholders without which it might be difficult to operate. The social contract of business with society is based on the premise that society provides corporations with their legal standing and the authority to own and use natural resources and to hire employees. Such action by itself implies a social contract. Below the financial performance of your bank is analysed by way of a conventional Value Added Statement.

Value Added Statement

(Rs. billion)	2007	2006
Income Earned by Providing Banking Services	48.0	33.4
Cost of Services	(20.4)	(13.1)
Value Added by Banking Services	27.6	20.3
Non-Banking Income	1.6	1.4
Provision for Bad Debts/Fall in value of investments	(1.2)	(1.4)
Direct Value Addition	28.0	20.3

	%		%	
Value Allocation to				
Employee				
Salaries wages & other benefits	31	8.8	42	8.6
Providers of equity capital - GOSL				
Dividends	3	0.8	6	1.2
The Government				
Taxes	13	3.5	16	3.3
Providers of external funds				
Refinance & borrowings	43	12.1	25	5.1
Expansion & Growth				
Retained Income	7	2.0	7	1.4
Depreciation	3	0.8	4	0.7
	100	28.0	100	20.3



The statement shows that value addition during 2007 improved by Rs. 7.7 billion, an increase of 38% over 2006. Thus even in a period of significant inflation, your bank continued to add value at a rate above it thereby contributing real value. The distribution of such added value, however, shows a substantial difference between 2006 and 2007. In 2007 allocation to employees reduced by 11% to 31% while providers of external funds absorbed 18% more than in 2006 increasing to 43% in 2007. Thus the beneficiary of much of the incremental value added during the year 2007 were external providers of funds with little change in retaining value added during the year within the business. The task of management will be to redress the balance of value addition and retain more within the business in the future years.

Indirect Value Addition

Since the early days of the 1940s, your bank has played a dominant and robust role in national development and continues to do so encompassing the entire country. Such development work is not only reflected in a branch network that crisscrosses the whole country but also connect major sectors of the economy to provide life changing banking services. Such services take various forms - from direct lending to indirect financing by placing the Balance Sheet at risk to facilitate trade across national and international borders. For the most part such services are priced on commercial terms taking into consideration costs and expenses normally incurred in the course of engaging in such activities. On a continuous basis, however, your bank also undertakes

activities that are not so commercially priced but provided at much lower rates, in order to develop selected areas of the country, its people and their businesses. The returns from such activities are distant and remote but not at all intangible, if efforts are sustained as first intended. The history of your bank is full of examples where such development activity has generated beneficial results over time. A conservative estimate of the financial burden and impact of such development activity computed on the basis of credit extended at less than commercial rates is a revenue loss at the Interest Income level of Rs. 2.4 billion for 2007. Such a high level of earnings would have not only enhanced value addition as per the statement shown above but would have changed reported profits in the following manner:

For the year ended 2007 *(Rs. billion)*	Bank	Group
Interest Income as reported	42.3	44.1
Interest Income with development banking priced commercially	**44.7**	**46.5**
Pretax Profit as reported	4.5	5.2
Pretax Profit with development banking priced commercially	**6.4**	**7.1**
Net Profit as reported	2.8	3.3
Net Profit with development banking priced commercially	**4.2**	**4.7**

Below some specific areas of development banking undertaken by your bank in 2007 is reviewed. Its purpose is to provide a fuller appreciation of the role and purpose of development activity undertaken by your bank in Sri Lanka.

1. **Financing Agriculture and Agro Based Industries**
   Increasing productivity of agriculture and promoting agro-processing enterprises is critical for rural upliftment and eradication of poverty. The common criteria for credit are the economic viability of the loan proposal and the repayment capacity of the farmer. Such criteria would leave out most of the small farmers who constitute bulk of the farming community in the country. Hence small farmer credit has been reoriented in such a way that potentially viable loan proposals by small farmers are also included. It means that a farmer whose credit proposal is not economically viable at present but has possibility to become viable as a consequence of credit assistance has been given priority by your bank.

   This strategy has enabled the extension of timely and adequate finance to a segment of farmers with a comprehensive package consisting of production, processing, packaging, transportation, storage and marketing. The market linkage introduced under the Forward Sales Contract Agreement also benefited both the farmers and buyers. In aggregate, credit amounting to Rs. 3.3 billion was extended during 2007 for the production of crops to Farmers and their purchase to Buyers and Millers.

2. **Krushi Navodaya Credit Programme**
   Your bank is involved in this credit programme implemented by the Ministry of Finance as envisaged in the Budget Proposal to empower the small farmers by providing access to agricultural inputs at affordable cost. It is expected that about 50,000 farmer families will benefit by this programme. Your bank has approved over 5,000 loans amounting to Rs. 328 million under this programme during 2007.

3. **Govi Shakthi Credit Programme**
   This credit programme was formulated by your bank at the request of H.E. the President and Minister of Finance to enhance the level of farm mechanisation for timely operation and also to expand the contribution of your bank covering various stages of agricultural production for the farming community. During the year under review 4,200 farmers benefited from this credit programme. Loans amounting to Rs. 733 million have been granted under it.

4. **Deevara Shakthi Credit and Savings Programme**
   A specially focused credit and savings programme, it was structured with the objective of providing sustainable livelihood for the fishing population of over 800,000 in the country, covering both marine and inland fisheries. The provision of credit alone was not sufficient to convert them into commercially viable fishermen. Hence a savings scheme was also incorporated into this credit programme aimed at this weaker segment of society. Loans amounting to Rs. 54 million have been granted under it.

5. **Sookshma (Micro) Credit Scheme**
   This special self-employment credit scheme is implemented to provide financial assistance for 'Home Based Enterprises' that can be started with the participation of the family. As envisaged by the 'Mahinda Chinthane' Development Programme of H.E. the President, the objectives of this credit scheme is to uplift the living standards of the rural community by generating employment opportunities and utilisation of resources in such areas. This credit scheme has provided gainful occupation to over 52,000 people full-time and part time gainful occupation to more than 150,000 people. It is with a tremendous sense of satisfaction, your bank reports that the income generating activities of many of the beneficiaries of this scheme, have expanded to the extent that they have now graduated to become commercially viable entrepreneurs.

Another testament to its outstanding success is that the loan portfolio under the scheme is in excess of Rs. 2 billion with recoveries exceeding 90%.

6. **Government Employees Housing Loan Scheme**
   As envisaged in the 2007 National Budget Proposal, your bank has been granting housing loans to Government and Provincial Public Service Employees. Under the loan scheme, finance is available for all aspects in the house-ownership process at interest rates ranging from 4% to 11% per annum. Aimed at addressing the acute housing needs of public servants and aspirations of owning ones abode together with financial responsibility, the scheme has been an outstanding success with take-up across the country. Total loans extended under the scheme on a secured basis exceed 10,000 loans amounting to Rs. 9.5 billion with little or no recovery problems.

7. **Government Employees Vehicle Loan Scheme**
   Similar in nature to the Housing Loan Scheme, your bank has been granting loans to Government and Provincial Public Service Employees for the purchase of motor vehicles (cars and vans), motorcycles and scooters for use on their official duties as well as private travel. Your bank has granted over 1,700 loans amounting to Rs. 723 million under this scheme.

8. **Comprehensive Educational Loan Scheme**
   To ensure that no deserving student in the country is deprived of higher education for want of finance, your bank has formulated this credit scheme covering all types of courses including professional courses at recognised educational establishments in the country and abroad. Loan up to Rs. 4 million is available under this scheme for a student. Loans amounting to Rs. 141 million have been granted under it.

9. **Personal Computer Loan Scheme**
   This loan scheme has been formulated for the purchase of computers and accessories, including e-mail and internet facilities to all salaried employees, professionals, self-employed persons, businessmen and parents of students. Formulated at the request of the Ministry of Education - Secondary Education Modernisation Project, this scheme has been extended to Government Teachers on concessionary terms. In 2007, loans granted amounted to Rs. 82 million.

10. **Group Micro Finance (Revolving) Credit Scheme**
    Your bank is participating in this above credit scheme implemented by CBSL to provide financial assistance in commencing micro-finance activities among the most vulnerable and poverty stricken areas identified by the Department of Census and Statistics. Self-Help Groups are formed in these villages with more women participation to motivate the savings habit among them before considering credit facilities to engage themselves in livelihood activities. Village groups are generally formed and with a regime of strong discipline. Working as a group inculcates group responsibility in the repayment of credit while enhancing group savings and team spirit. The portfolio under this scheme contains over 752 loans amounting to Rs. 22.5 million.

11. **Gamata Naya Credit Scheme**
    Under the Mahinda Chinthanaya programme of HE the President and Minister of Finance, your bank inaugurated the Gamata Naya Credit Programme in 2007 to finance 300 new industrial projects to be established in areas of low industrialisation. The key financial benefit of this programme is the extension of credit at a concessionary interest rate amounting to only 2/3rd of the normal listed rate. During 2007 proposals approved financial assistance amounting to Rs. 1.6 billion to commence 12 industrial projects worth Rs. 2.7 billion. These projects created direct employment opportunities of 3,500 and indirect employment opportunities for more than 10,000.

12. **Housing Project**
    Your bank has committed to provide loan facilities amounting to Rs. 2.3 billion to construct 1,620 housing units, costing Rs. 1.4 million per unit. Individual loans will be granted on completion of these housing units. Apart from the immediate benefit of providing satisfactory housing, the project carries far reaching social and economic benefits in vitalising an area that is currently under developed.

13. **Training for Small Entrepreneurs**
    Your bank conducted a number of island-wide training workshops for small entrepreneurs at branch level. In these interactive workshops 2,830 small entrepreneurs obtained a basic training in key areas such as micro project management, book-keeping, banking, money management etc. Selected micro projects were examined as case studies, providing critical insights into lessons to be learned from the effectiveness of their implementation.

BUSINESS CONTINUITY PLAN (BCP)/ DISASTER RECOVERY PLAN (DRP)

In 2007 your bank prepared and tested a comprehensive Corporate BCP and DRP. The plan was reviewed and tested by CBSL for compliance with their standards and accepted. The facility, housing a comprehensive operations centre, to include all necessary equipment, backup systems and other infrastructure facilities to cover all critical functions in emergency situations, is located several kilometres away from the Head Office located in Colombo. Several awareness programmes covering both plans were also conducted during 2007.

SUBSIDIARIES AND ASSOCIATES

Investments of your bank across nine Subsidiaries and six Associates now total Rs. 3.6 billion. Dividends and share of income from these investments increased from Rs. 164 million in 2006 to Rs. 253 million in 2007 indicating better management of these resources. The investments are both quoted and unquoted and cover a range of businesses in finance, travel, hotels and real estate. Several of the investments have unique characteristics and carry high reputation in their respective business sectors. Reviews are underway to optimise the investments with a view to enhancing returns.

PENSION FUND

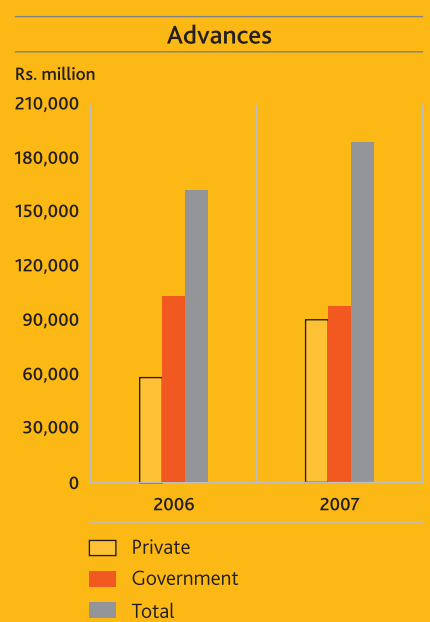
Your bank sponsors two pension schemes, the Bank of Ceylon Pension Trust Fund and the Widows'/ Widowers' and Orphans' Pension Fund (W/W&OP) which have been established to cover the liabilities towards the retirement and other benefits of employees. Their latest valuations as at 31 December 2007 revealed the estimated deficit of the funds have reduced with the existing contributions i.e. in the case of the Pension Fund, the deficit was reduced to Rs. 1.91 billion from Rs. 2.45 billion in 2004. In the case of W/W&OP, the deficit was reduced to Rs. 1.63 billion from Rs. 2.02 billion in 2004.

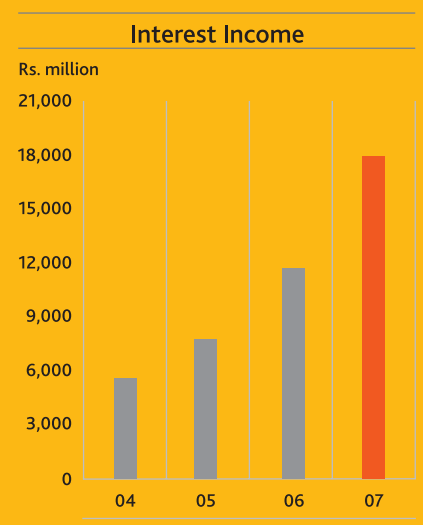
The valuation also reveals that existing contributions will reduce the deficit of the funds in the future. Steps are underway to mitigate the open-ended nature of the funds if and when economic assumptions incorporated in the valuations change.

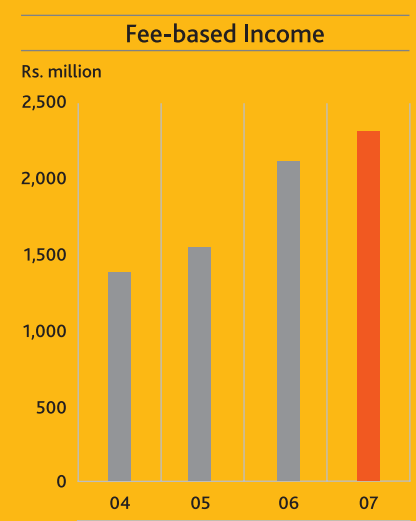
REVIEW OF STRATEGIC BUSINESSES - 2007

Your bank is organised into Strategic Business Units (SBUs) and several Operating Units to ensure the achievement of its strategic goals as well as comply with various Operational, Reporting and Compliance objectives. Accordingly apart from the 3 major SBUs comprising the Corporate Bank, the Consumer Bank and the Treasury Division, severe focus is maintained across several areas of operational and strategic importance, namely Finance & Planning, Product & Development Banking, Information Technology, Human Resources, Support Services, Legal, Risk Management and Audit.

CORPORATE BANK







Operating across the major corporates and large SMEs, the Corporate Bank scored several firsts in 2007 and retained its class leading position, as the most preferred Corporate Bank in Sri Lanka. Its focus remains corporate customers with a fully staffed offshore Banking Unit to serve companies approved by the Board of Investments of Sri Lanka. Additionally it manages the Metropolitan Branch serving the special

"OUTREACHING ALL"

Our network of branches and ATMs reaches out to all parts of the country and to all people from all walks of life. We are the most accessible network with the most relevant products.

needs of the Government and State Owned Enterprises (SOEs) with the Pettah Branch banking the very demanding needs of the mainly wholesale trading companies across several essential commodities and staple food items. Among the unique features of the Corporate Bank are its longstanding relationships that have deepened over decades where several treat your bank as a strategic partner. The corporate bank portfolio is diversified across the industrial base of Sri Lanka providing not only short and longer term financing but a full compliment of banking services. Reflecting its superior position, Corporate Bank delivered another set of unbeatable results for 2007 again contributing greatly to the performance of your bank. Some highlights of its continuing uptrend are:

- Interest income up from Rs. 11,697 million in 2006 to Rs. 17,978 million in 2007, an increase of 63%
- Growth of the advances portfolio from Rs. 162 billion in 2006 to Rs. 189 billion in 2007
- Rupee Deposits up by 52%
- NRFC Deposits up by 20%

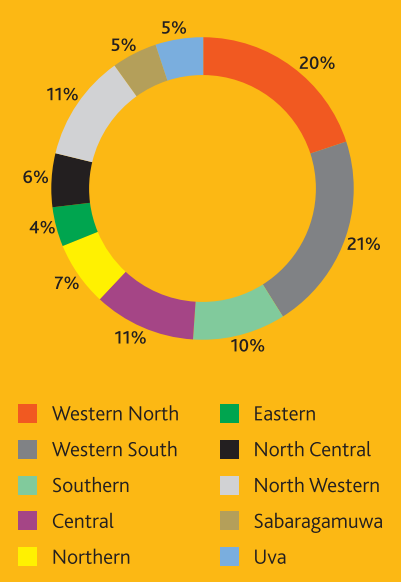
Also highlighted below are some of the landmark transactions that were undertaken during 2007 that should retain its superior position:

- Working in collaboration with overseas Government sponsors and banks, a Euro 2.3 million financing of a fully integrated dairy business that should significantly uplift such capacity in Sri Lanka.
- Communication sector financing amounting to Rs. 2.1 billion in partnership with leading edge technology and construction companies.
- Financing a nationally important green-field housing project at Rs. 2.3 billion.
- Signifying predominance of the apparel sector financed a US$ 17 million Knitted Fabric Plant and Synthetic Fabric Printing Plant, both firsts of their kind in the country.
- Financing for Shipbuilding and Ship Purchases amounting to US$ 55.6 million.
- Participation in a US$ 5 million syndication for a Thermal Power Plant.
- Financing a number of leisure and infrastructure projects in the Republic of Maldives amounting to US$ 28 million (Rs. 3 billion).

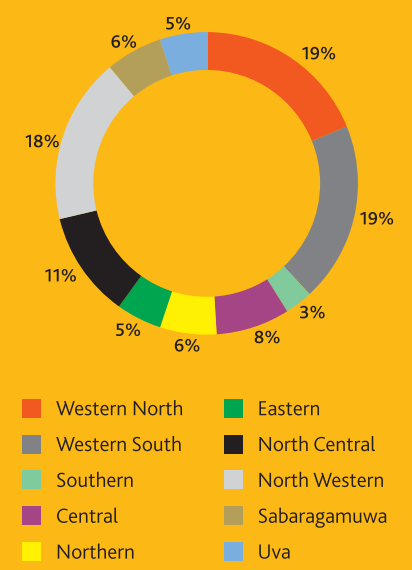
CONSUMER BANK

Your Consumer Bank with its footprint literally

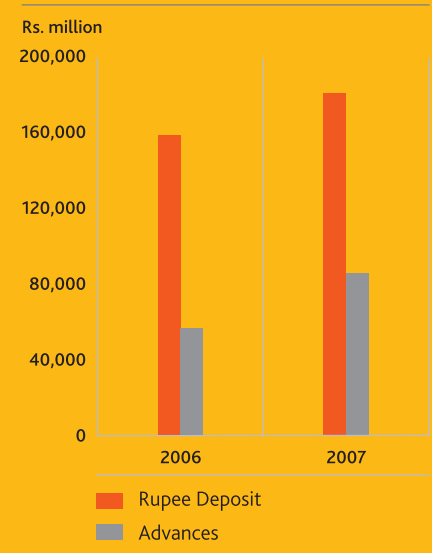
Revenue by Region



Profit by Region



Business Volume



everywhere in Sri Lanka for everyone within its borders, provides a wide array of banking services through an on-line network of 295 branches, 72 Extension Offices, 203 ATMs and the Internet. It serves circa 7 million customer accounts, providing products and services to meet the financial needs of individuals, small and medium size businesses and manages the infrastructure for the widespread microfinance efforts undertaken by your bank. Now a specially focused business based on its function as a convenient means of finance among specific communities and businesses, the pawning business has grown substantially. In 2007 pawning related advances increased by 53% to reach Rs. 23 billion compared to Rs. 15 billion in 2006. Also experiencing similar growth has been the Leasing portfolio across the branch network, which grew during 2007 by an incremental Rs.4 billion. The structuring of special arrangements with vehicle suppliers together with focused sales efforts underpinned such expansion.

The two exhibits in reference to the regions show the distribution of consumer banking revenues and profits. The Western Province reflecting its relative prosperity versus the other regions generated both the highest revenue and profitability, 41% and 38% respectively.

Growth in average deposits and loans within the Consumer Bank was 14% and 54%, respectively, was partially offset by a decrease in net interest margin. It declined mainly due to an increase in the cost of funding driven by a shift to higher cost time deposits and a shift away from high yielding credit card assets toward lower yielding mortgage assets which more than offset a general increase in consumer loan yields. Consumer Bank asset growth was diversified across regions as well as across the economy. Pursuing a strategy to re-engage communities as well as mobilise deposits, several deposit mobilisation initiatives, some in remote locations were undertaken by staff on a voluntary basis during the year with the Trade Unions providing their willing support.

Traditionally, Consumer banking business is the funding source for the other businesses by mobilising more deposits than advances. During 2007, Consumer Banking business also expanded its lending operations to meet the increasing demand. In 2006, only 35% from the deposits collected had been extended as loans in the same segment, whereas in 2007, it has increased to 46%. Depicting a sign of divisional autonomy, it goes in-line with the Government policy to invest in rural areas of the country.

INTERNATIONAL & TREASURY DIVISION

A significant portion of the business activities of your bank is based upon gathering deposits and borrowing money and then lending or investing those funds. The third of the strategic businesses in your bank, the Treasury plays a pivotal role in the above intermediation process. Accordingly it has dual responsibilities - not only generate profits and returns in-line with budgets but also ensure that your bank remains adequately funded and liquid at all times. With interest rates and liquidity at times reaching unprecedented levels, 2007 was a challenging year in the fullest sense of the word.

During the course of 2007, the Treasury delivered an acceptable return managing significantly enlarged volumes. While interest income expanded by some 58% to Rs. 42,286 million, interest expenses increased by 87% to Rs. 29,453 million. While such uneven expansion led to a diminished net interest margin, it nevertheless indicates the size of volumes handled by the Treasury, the largest among banks in Sri Lanka. Additionally it contributed Rs. 839 million in 2007 compared to Rs. 709 million in 2006 as realised exchange income. The Treasury also took the lead role and primary responsibility during the year to raise the largest syndicated loan amounting to US$ 210 million by any Sri Lankan commercial bank at 1% over LIBOR in May 2007. In addition it scored a double first by being appointed Co-Manager of the historic debut bond of US$ 500 million issued by the Government of Sri Lanka. On a more practicle note, the Treasury Dealing Room was upgraded with new facilities incorporating state-of-the-art technology enabling speedy access to a broader information base.

In terms of the Overseas Branches of Male, Chennai and London, they reported combined profits up by more than 100% over the previous year.

OUTLOOK FOR 2008

Unlike the transition from 2006 to 2007, your bank exits a highly competitive but expansionary 2007 to enter a challenging 2008 with the international market in more disarray than the domestic market. Focus will be on regaining core banking profitability and establishing capital strength to anchor the business to deliver stable and enduring growth. In this connection, the strategy of your bank is to embed it firmly and deeply within Sri Lanka and cement the building blocks necessary to grow internationally, taking full advantage of its unique licence in the London market. The expectation of your bank is to emerge with a mix of revenue streams, assets and businesses with a strong and growing presence internationally that will maximise returns to all its stakeholders.

Goals in 2008

Your bank has translated the above focus and strategy to a programme of goals:

- The main goal of your bank is to regain and improve profitability at the primary operating level out of core banking activities. Pricing of both lending and funding will be under constant review to ensure stable financial margins at the net interest income level. Focus here will be to arrest and manage the compression in financial margins suffered over the past few years. As competition for longer-term deposits increase threatening the low cost base of what has been a stable source of

funds, fresh strategies will need to be employed to retain them within your bank and seek other alternative sources of funds.

- Your bank will also embark more aggressively on deploying the risk management initiatives that commenced last year. These initiatives are fundamental in two ways - managing the cost of credit downwards and avoiding capital write-offs thereby helping rebuild the capital base. The goal is to apply the best risk management practices, transforming them into a key competitive advantage that will drive bottom line results.
- Protecting and enhancing financial margins at the net interest income level would be of little benefit in the absence of strong expense management. Reengineering, control of overheads, managing operational weaknesses and eliminating duplication and waste, will be crucial in ensuring improvements in financial margins are not lost elsewhere. Indeed if margin compression at the financial level is difficult to arrest, then control of other costs will become even more crucial. Efficiency of operations is the ultimate goal here.
- Maximising the benefit of emerging enabling technologies to communicate, respond, innovate and simplify the business of banking is also in the agenda of your bank. At the very least your bank will strive to retain its current technological advantage, a key differentiator among Sri Lankan banks.
- Leveraging the banking license and operation in London of your bank is also a key goal in 2008. Fully supervised by the Financial Services Authority in the UK, your bank sees significant opportunity for the London business to expand not only by engaging the diaspora in London but also within the Euro Zone countries.
- Focus on managing people more effectively, to reward them for demonstrated performance and ensuring that key people are fit for the purpose are also in the scope for 2008. As people ultimately make the difference between growth and stagnation, their effective deployment and management will be critical.
- Finally your bank will retain and advance its interest in the Environment. As a responsible corporate citizen, your bank will undertake programmes to ensure the sustainability of the environment not only from a business perspective but also in the national interest.

Although still not an altogether global business, your bank more than any other Sri Lankan financial institution is tied to the worldwide economic environment due not only to its more internationally oriented export focused customer base but also due to its foreign currency funding strategy. Accordingly the negative impact of a US and/or global downturn in 2008 is likely to impose some difficulties. A U.S-led economic downturn could negatively impact other markets at least in the short to medium term, however de-coupled they may be from the US. Economies around the world could restrict growth opportunities internationally as export markets contract. Should economic conditions further deteriorate placing specific stress on the export sector, creeping revenue reduction is likely accompanied by increasing cost of credit. In addition, continuing deterioration of the U.S. or global real estate markets and other unrelated but stressed securitised and structured financial markets could adversely impact global banking via additional write-downs as mark-to-market takes its toll on their capital thereby restricting credit capacity and crowding out non-prime borrowers. Although pricing is likely to decline as Central Banks globally provide liquidity to avert a full scale depression, tenors are likely to be shorter rather than longer delaying essential borrowings to undertake longer-term infrastructure development. Your bank is likely to experience such difficulties as it seeks longer-term funds to undertake development work. The rising level of oil prices as well as other commodities does not also provide much comfort. As the global economy re-balances giving way to recessionary pressures with lower growth, oil and other commodity prices should stabilise at lower price level.

The decline of the US Dollar as a reserve currency is another factor that needs international management. Its decline on the performance of your bank and the export sector of Sri Lanka at large is also significant. Other domestic conditions are no less trying. Budget deficit at 7.5% to 8.5% of GDP is disturbing the stability of prices, interest and exchange rates. Public debt to GDP at 88%, although declining remains on the high side.

The rising cost of power resulting from the new tariff structure and the incidence of violence are further debilitating factors. Such negatives are balanced by a set of positive features - continued economic growth, Balance of Payments in surplus, official reserves in excess of US$ 3 billion, declining unemployement and forward movement on some infrastructure projects augurs well for the economy. Given the balance of all factors, credit expansion at your bank during 2008 is likely to be muted and controlled. Lending will be on a selected basis taking into consideration not only pricing but also risks and tenors under close surpervision. In the circumstances, with a siginificant business line under pressure, exceeding 2007 profits in 2008 looks tight but possible by pursuing the strategies set out earlier.

INFORMATION TECHNOLOGY

As Sri Lanka's premier State Bank, your bank is focused on enabling all service points in online, real-time banking services. Today Bank of Ceylon is proud to match many of the products and services as the world's best banks. The well-planned use of Information Technology has greatly enhanced operating efficiency at your bank and contributed to the national economy.

In 2007, your bank accomplished a number of IT improvements and initiatives, as detailed below.

BRANCH-WIDE ON-LINE BANKING OPERATIONS

On-line banking services were implemented in 44 branches and 23 extension offices in 2007. The total number of service points now stands at 367, constituting the largest on-line branch network in Sri Lanka. The network includes 12 and 17 branches in the Northern and Eastern Provinces respectively.

VALUE-ADDED SERVICES FOR CORPORATE CLIENTS

Customers and corporate enterprises with decentralised operations can now access the bank's advanced IT facilities from anywhere in the country, including the North and East. Individual, tailor-made solutions for Corporate clients wishing to streamline their collection facilities and reconciliation systems for greater operational efficiency are now available.

AUTOMATED TELLER MACHINES

Bank added 19 ATMs to its network during 2007 bringing the total number to 203. These machines give customers access to round-the-clock banking services from locations all over the country. Connected to both the Plus and Cirrus international networks, they are accessible to Visa and Master Debit and Credit card holders. All machines now comply with latest Visa security standards.

The customers are now able to engage in third-party fund transfers through ATMs. Also work to enhance the ATM service offering utility bill payment facilities is nearing completion.

AUTOMATED INWARD REMITTANCES

Your bank has successfully implemented an automated inward-remittance-processing system, capable of handling all types of overseas remittances, enabling them to be credited immediately to their designated beneficiaries. The software for this system was developed entirely in-house. BoC is currently the market leader in inward remittances with over 50% share.

BoC e-CASH

Your bank also demonstrated its ability to provide innovative IT-derived products and services with the BoC e-cash system. It offers the convenience of making remittances over the Internet. BoC e-Cash is implemented at the London and Malé branches, as well as at several overseas bureau de exchange. Funds received on-line are credited immediately to the relevant account and the beneficiary is alerted to their receipt by SMS. The product has been a great success with customers remitting Rs. 1 billion monthly via BoC e-Cash.

INTERNET BANKING

Apart from BoC e-Cash, customers are now offered a wide range of internet-banking services with numerous options. Features include a single-page view of customers' all Current, Savings, Loan, Fixed Deposit and Credit Card accounts, transfers between the customers' own accounts or to a third-party account, bill payments and Credit card payments with online security to global standard.

CASHLESS PAYMENT THROUGH PAYMATE

The paradigm-shifting new cashless-payment system, PayMate is now available to over 6 million customers. It links their mobile-phone numbers to their bank accounts in order to carry out secure transactions without exposing the card number or account details to another party or to prying eyes in the Internet.

MULTI-CHANNEL BANKING

One of the most significant achievements of the IT Department in 2007 was the development of in-house multi-channel gateway to facilitate service delivery. The gateway offers many services, facilitates administration and integrates different systems and products such as Internet banking, mobile banking, SMS banking, credit cards, point-of-sale transactions etc.

HEAD OFFICE NETWORK UPGRADE

Extensive upgrading of Head Office IT network was carried out during 2007. The local-area network was reinstalled using structured cabling. Configurable network switches and a fibre-optic backbone were also installed.

ENHANCED SECURITY

Your bank became the first Sri Lankan bank to adopt VeriSign Identity Protection (VIP), adding a further layer of security and providing customers with visual assurance of authenticity when they access the bank's web site. Extended-validation SSL certificates enable the customer's browser to verify clearly the site's organisational identity. The two-factor authentication provided by VIP for the bank is designed to address problems often encountered when using only a simple user name and password, the commonest method of authentication.

IMPROVEMENTS TO THE TRADE-FINANCE SYSTEM

The year saw the implementation of a client-trade module. Designed to provide import-export clients with more direct access to the Trade-Finance system of your bank, thereby facilitating the opening of letters of credit and other related formalities and transactions.

BANK OF CEYLON CREDIT CARDS

A new software package was implemented to offer enhanced facilities to Credit Card customers. Its major features include improved security and the ability to integrate with other financial software systems. The new software is enabled to acquire both MASTER and VISA credit/debit cards. For greater security, this software also automatically sends an alert by SMS to the card holder whenever a financial transaction is performed. It is also scheduled to go live with Master/VISA acquiring and issuing with EMV enabled CHIP cards.

DISASTER-RECOVERY CENTRE

Another key development in 2007 was the inauguration of a state-of-the-art disaster-recovery centre for the bank, capable of maintaining uninterrupted service in an emergency. The centre incorporates on-line, real-time 'mirroring' of critical applications, ensuring that, if an application fails its 'mirror' immediately takes over without loss of function. All systems at the site have been fully tested under a variety of simulated emergencies; indeed, It is believed that the Bank of Ceylon now owns one of the best disaster-recovery centres in the country.

OTHER OPERATIONAL IMPROVEMENTS

A new system was implemented to provide enhanced credit information under the CRIB modernisation project. The automation of staff payments and PAYE tax computation has been helpful in reducing operational costs and providing tax information in time to the Department of Inland Revenue.

"NURTURING GROWTH"

Growth to us does not only mean financial growth. Growth to the Bank also means growing and respecting the environment, growing and empowering the community. So while the Bank grows, we grow our physical environment and grow the communities we work in and live with.

KEY FINANCIAL DATA

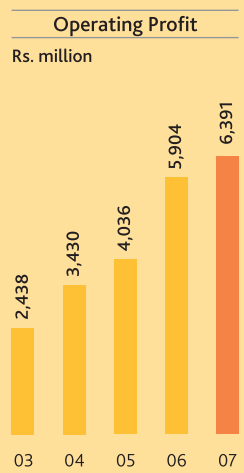
Rs. million except for ratios and share data	**2007**	2006	2005	2004
Operating Results				
Total Revenue	**50,160**	35,192	27,324	23,957
Net Interest Income	**12,833**	11,080	9,364	8,353
Net Profit Before Tax	**4,518**	4,138	3,120	2,558
Provision for Taxation	**1,675**	1,510	1,225	589
Dividends	**846**	1,173	1,150	1,000
Per Share Data (Rs.)				
Earnings per Share	**711**	657	474	492
Net Assets per Share	**5,263**	4,478	4,088	3,837
Profitability Ratios (%)				
Return on Average Assets (before tax)	**1.11**	1.19	1.06	1.01
Return on Average Equity (after tax)	**14.59**	15.33	11.96	13.27
Interest Margin	**3.14**	3.17	3.20	3.30
Net Interest Margin	**30.35**	41.31	45.47	50.29
Cost to Income	**68.35**	68.93	72.06	66.83
Balance Sheet Data				
Total Assets	**437,901**	378,299	319,722	266,399
Gross Loans & Advances	**291,361**	233,618	176,062	141,340
Non-Performing Assets	**11,334**	13,603	12,495	13,848
Net Non-Performing Assets	**3,844**	4,182	2,607	3,590
Deposits from Customers	**308,667**	262,676	232,512	205,164
Shareholder's Equity	**21,050**	17,912	16,351	15,348
Assets Quality Ratios (%)				
Loan to Deposit Ratio	**94.39**	88.94	75.72	68.89
Provision for Loan Losses/Non-Performing Assets	**78.65**	76.31	82.53	77.32
Provision for Loan Losses/Total Assets	**3.06**	4.44	5.86	7.58
Net NPAs/Shareholder's Equity	**18.26**	23.34	15.94	23.39
NPA Ratio	**3.89**	5.82	7.10	9.82
Statutory Ratios (%)				
Capital Adequacy Ratio				
Tier 1 Capital	**11.38**	11.90	12.67	12.33
Tier 1 & 2 Capital	**11.40**	12.30	13.18	12.44
Liquid Assets Ratio	**21.20**	22.19	26.87	23.82

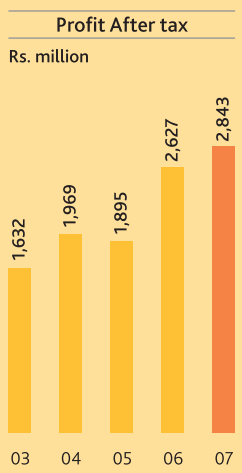
GRAPHICAL REVIEW

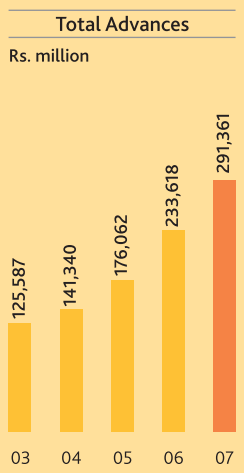
Economic Indicators - Sri Lanka

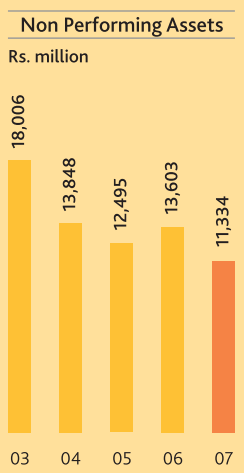
Source - Central Bank of Sri Lanka

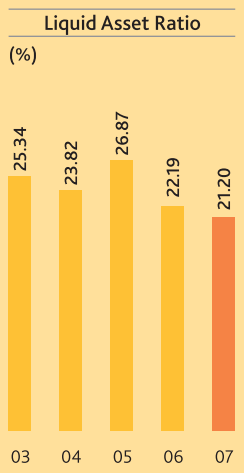
Key Indicators - Bank of Ceylon

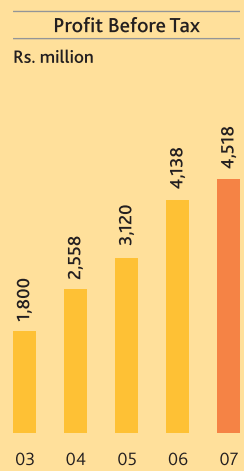


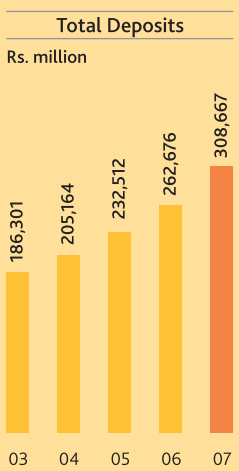


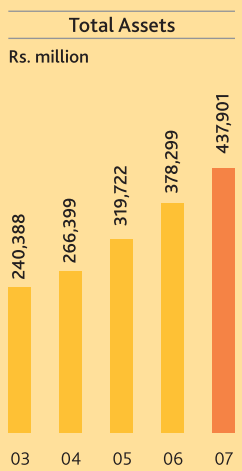


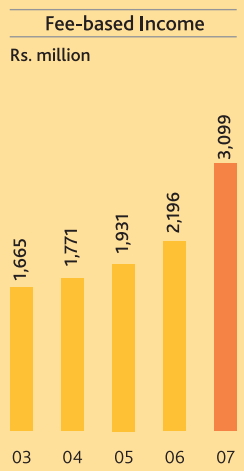












PRODUCTS & SERVICES

DEPOSITS

Local Currency Deposit Accounts

NORMAL SAVINGS

- Ran Kekulu Ginum
- 14+ Teen Savings
- 18+ Youth Savings
- Sisu Saviya Savings
- Kantha Ran Ginum
- Senior Citizens Savings

SPECIAL PURPOSE ACCOUNTS

- Ran Govi Thenpathu
- Ranaviru Ran Ginum
- Samurdhi Savings
- TECO Savings
- Dheevara Thenpathu

MATURITY DEPOSITS

- 7-day Call Deposits
- Savings Certificates
- Normal Fixed Deposits
- Moving Rate Fixed Deposits
- Senior Citizens Fixed Deposits
- Special Savings Certificate (scratch savings)

Foreign Currency Deposit Accounts

NRFC ACCOUNTS

- Normal NRFC Savings
- NRFC Fixed Deposits
- Foreign Currency Savings Account for Professional Service Providers
- Foreign Currency Fixed Deposit for Professional Service Providers
- Foreign Currency Current Account for Professional Service Providers

RFC ACCOUNTS

- Normal RFC Savings
- RFC Fixed Deposits

OTHER ACCOUNTS

- Ethera Thilina Savings
- Ran Kekulu Foreign Currency Children Savings
- Resident Non-National Foreign Currency Savings
- Export Foreign Currency Accounts

TREASURY

Primary Dealer Unit

- Treasury Bills
- Treasury Bonds
- REPO's
- Reverse REPO's

Forex & Fund Management

- Forwards
- SWAPS
- Import/Export Financing
- Custodian Services
- Money Market Lending & Borrowing
- Interest Rate Swap

Special Services

CASH SERVICES

- ATM Services
- Cheque Encashment
- SLT Direct Debit
- Foreign Currency
- RTGS Fund Transfer

FUNDS TRANSFER

- Inter-Branch Money Transfers
- SWIFT
- SLIPS
- Telegraphic Transfers
- Mail Transfers
- e-Cash Inward Remittance Service
- Xpress Inward Remittance Service
- Issuing and Encashing Foreign Drafts

TRAVEL SERVICES

- Bureau de Exchange
- Traveller's Cheques

VALUE ADDED SERVICES

- Gold Shop
- Safe Custody Vault
- Insurance Desk
- Left Handers' Cheque Book
- Ran Kekulu Gift Vouchers
- Money & Banking Museum
- Small Entrepreneur Consultancy
- Trade Information and Help Desk
- e-Channelling
- Ran Kekulu Sansada (School Savings Units)
- SMS Banking
- BoC Paymate
- Phone Banking
- BoC Internet Banking

CREDIT CARDS

- Visa Credit Card - Local
- Visa Credit Card - International
- Master Credit Card
- Apsara Ladies Credit Card
- Visa/Master Card Acquiring Services
- Visa Electron Debit Card

ADVANCES

LOANS

- Term Loans
- Short-Term Loans
  Pledge Loans
  Hypothecation Loans
  Trust Receipt Loans
  Series of Loans
- Export Packing Credit Loans
- Foreign Currency Loans
- Ran Surekum Pawning
- Bridging Loans
- Scheme Loans

OVERDRAFTS

- Permanent Overdrafts
- Export Packing Credit Overdrafts
- Ran Surekum Overdrafts
- Temporary Overdrafts

LETTERS OF GUARANTEE

- Credit Purchase Guarantee
- Tender Guarantee
- Bid Guarantee (Bid Bond)
- Performance Guarantee (Performance Bond)
- Advance Payment Guarantee (Advance Bond)
- Retention Guarantee (Retention Money Bond)
- Customs Duty Guarantee For Imports (Custom Duty Bond)
- Shipping Guarantee

LEASE FINANCING

- BoC Leasing Scheme
- Special Leasing Scheme with DIMO

OTHER SERVICES

- Letters of Credit
- Negotiation of Bills (DP/DA Terms, deferred payment terms)
- Purchase of Export Bills (DA/DP)
- Purchasing of Cheques
- Encashment Facilities

DEVELOPMENT CREDIT SCHEMES

- Comprehensive Higher Educational Loans
- Personal Computer Loans
- BoC Housing Loan Scheme
- Housing Loans for Government Employees
- 'Sookshma' Micro Credit Programme
- Educational Loan Scheme for professionals
- Tea Development Project Revolving Fund
- 'Dheevara Shakthi' Credit Scheme
- 'Govi Shakthi' Credit Scheme
- EIB Post Tsunami Line of Credit
- Poverty Alleviation Micro Finance
- Vehicle Loans for Government Employees
- Personal Loans
- Special Motor Vehicle Loan Scheme for Provincial Council Members
- Loan Scheme for Passenger Transport
- 'Gamata Naya' Credit Scheme under 300 industrial development programme

CORPORATE SUSTAINABILITY & RESPONSIBILITY REPORT

CREATING SUSTAINABLE VALUE

The main goal of your bank is to create sustainable value for all its stakeholders. While other sections focus on the value creation process for the shareholder, this section reports on the similar process as regards the principal stakeholders, namely employees, customers, suppliers and society at large. This report describes the ways and means of balancing different stakeholder interests, while ensuring the achievement of strategic, operational, compliance and reporting objectives of your bank.

Corporate Sustainability & Responsibility (CS & R) Policy

The CS & R Policy and Approach of your bank focus on best serving the diverse interests of its key stakeholders. It is multidimensional and island-wide. Among the stakeholders are featured the Government as the single Shareholder, Customers both corporate and individual spread across the country and overseas, Employees in excess of 8,000 in 304 local and 3 foreign branches, Suppliers whose products, services and channels are essential to survival and Society at large as guardians of the environment and important national values. Taking each stakeholder separately, your bank enunciates below the policies that drive its CS & R activities.

Government as Single Shareholder

Promote the interests of the single shareholder by seeking to increase the value of the annual dividend and by applying sound principles and practices of corporate governance. Communicate with the shareholder regularly and in doing so to be clear, comprehensive and balanced.

Society/Environment

Contribution to society and value addition by successfully managing the Bank thereby not being a burden on the State. Positively influence social, environmental and energy issues.

Employees

Provide a safe working environment, encourage openness, honesty and respect where questions can be asked and constructive challenge is promoted. Offer equal opportunities to all to develop skills enabling fulfilling careers and competitive remuneration.

Customers

Be honest, fair and open in all dealings with customers and endeavour to assist them at all times. Be committed to providing value-for-money products, simple in application and promoted transparently and available widely at all points of sale. If and when matters turn out to be wrong, as they invariably do from time to time, to resolve speedily and fairly. Foster financial literacy and discipline among children, small businesses and entrepreneurs as well as providing financial assistance to schoolchildren to pursue educational objectives.

Suppliers

Foster long lasting relationships based on quality of product/services as well as price and mutual trust. Have fair selection and exit criteria.

CS & R STRUCTURE

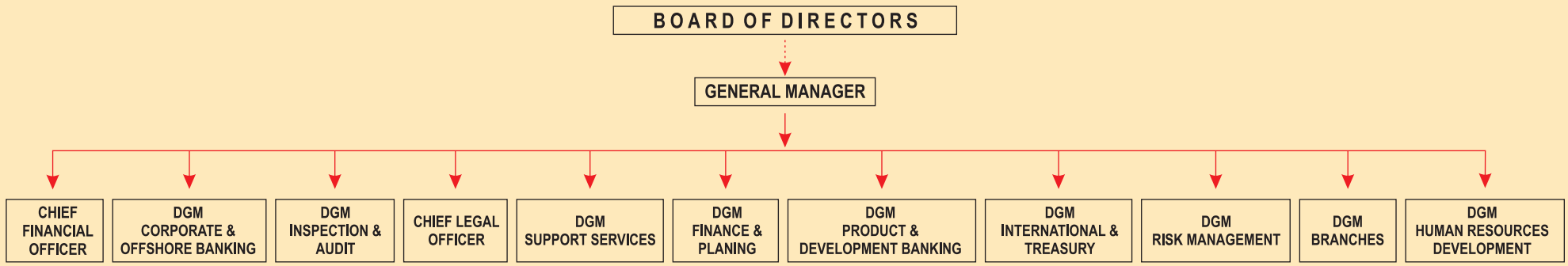
Your bank engages in its CS & R activities through a Committee comprising the Corporate Management and the Board. The Committee Structure is exhibited in the following page. Apart from some long running themes, input for the annual programme of work comes from a variety of sources both internal and external. While all measures are taken to ensure that the intended objectives are achieved, your bank is currently engaged in developing criteria to evaluate its CS & R performance on an objective basis. Accordingly a set of Key Success Indicators for each of the Policies noted above will be available.

EMPOWERING THE COMMUNITY

The unique role of your bank in the financial services industry translates into a distinctive role as a responsible Sri Lankan corporate citizen. Over the years it has continued to deliver solid financial results. Hence it has added value to society directly by operating successfully and by paying both taxes and dividends to the Government. It has by all definitions been beneficial to society rather than a burden. Simultaneously it has invested in the people of Sri Lanka, endeavoured at all times to empower deprived communities and generate social wealth. It should be noted that the result of such activity is not normally reflected in Financial Statements. Hence going forward your bank will separately comment on such value addition activities.

During 2007 your bank conducted island-wide training workshops for small entrepreneurs at regional level. In these interactive workshops, no less than 2,830 small entrepreneurs obtained a closely monitored basic training in key areas such as micro project management, book keeping, banking, fund management, etc. Selected micro projects were examined as case studies, providing critical insights

CORPORATE SUSTAINABILITY & RESPONSIBILITY STRUCTURE



into lessons in the effectiveness of implementation. National Chamber of Commerce has endorsed the achievement of the above objective by ranking your bank among the top 10 best corporate citizens of the country in 2007. In recognition of the educational and training provided to Small and Micro Entrepreneurs, the Ceylon Chamber of Commerce awarded your bank a special Award on Corporate Social Responsibility for Education and Training - 2007.

Over the years your bank has played an important role in the delivery of special credit programmes directed at encouraging sustainable livelihood, enterprise development, poverty alleviation, employment generation, housing, transportation, etc. It has used its country-wide network to implement these special products and services to promote national development and social equity.

CS & R is an integral part of conducting business at your bank. It reflects the responsibility your bank carries as the leading bank to nurture national development across the country.

The 2007 CS & R activities were focused on four broad areas:

- Environment and Village Development
- Disaster Response
- Investing in Children and Youth
- Fostering the Entrepreneur

Environment and Village Development

In Sri Lanka, a majority of the population of around 20 million lives in villages. To achieve a sustainable, conscience driven widely spread national growth, it is

Beneficiary Training for micro entrepreneurs at Ruhunugama (Ampara District)

essential to concentrate on village development focusing on human and physical resources. This will result in enhancing the income level of the rural population thereby upgrading their standard of living. Focus on health and education is required in developing human resources that includes improving capacity and skills. To develop physical resources in the village, focus should be on developing their infrastructure. As a state bank and in line with

Government strategy, your bank has identified 3,000 villages for an accelerated economic development programme. It has several objectives - to improve livelihood opportunities, enhance the quality of life and infrastructure while developing self-confidence amongst the people by enhancing their skills. The focus group for the programme is women and self-help groups.

Gam Udana Ceremony at Dehiattakandiya under BoC's CSR Programme.

In the year 2007, pilot programmes were run in 30 villages selected in the districts of Hambantota situated in the south coast of the Island and Kegalle over 50 km east of Colombo. The aim was to provide financial assistance for infrastructure development including construction of roads, safe drinking water facilities and proper sanitation.

The approach of your bank in both districts was to take a holistic view by not simply providing finance but applying the programme strategy discussed above that included necessary knowledge transformation, skill development and capacity enhancement. On completion of individual skill assessment, your bank identifies the necessary training requirements and then signs agreements with relevant training institutions. Progress through the training scheme is tracked to completion prior to financing the intended vocation-related business.

Fostering the saving habit is one of the objectives within the Village Development Programme.
The campaign in Dehiattakandiya, over 200 km north-east of Colombo, was undertaken in 2007 with this objective in mind. Through this campaign your bank was able to engage the rural folk face to face and win their hearts and minds. Some 7,000 new accounts were opened and several past customers lost to competitors were re-engaged. Participation was widespread involving Government Ministers, the Chairman, Senior Management, staff from the entire district and the Trade Unions. As part of this campaign your bank undertook the maintenance of several landmark buildings in the area and established connections with local schools by providing essential

National IT

books for their libraries, donating other essential items such as stationery and uniforms and arranging mobile banking facilities. This is the first such project undertaken and completed by the bank during the year. Many others are scheduled in the coming year.

IT literacy is also part and parcel of successful modern village development. In Moneragala, over 250 km from Colombo, your bank joined hands with 'Nenasala', the Government sponsored national unit spearheading the spread of IT within the country, providing state-of-the-art internet facilities to develop computer literacy among the youth of the area. Your bank also partnered with Information and Communication Technology Agency of Sri Lanka (ICTA) in developing an IT capacity building programme for Business Process Outsourcing (BPO), at a cost of Rs. 2.5 million. The fact that BPOs and the IT industry have the potential to provide new opportunities for rural youth was the main driving force in financing this project.

Your bank, under a town-ship development project is committed to provide Rs. 2.3 billion on low cost loans for the housing construction in Ipologama. The interest rate will be below the market rate spread over a period of 10-20 years.

Disaster Response

Given the recent spate of natural calamities that have destroyed normal life of the community and retarded progress of the nation, your bank has recognised the necessity of safe and immediate fast-response recovery of the injured irrespective of the magnitude of the calamity. In line with Government disaster management policy, your bank has joined these efforts and has extended maximum co-operation in this recovery process.

Red Cross: Establishment of Disaster Response Emergency Fund

Having reviewed the availability of capacity to engage and properly deliver a service as defined above, your bank based on its proven success in the field globally, selected the Sri Lanka arm of the Red Cross Society (RCS) as its partner. SLRCS, its local arm is the largest volunteer organisation in Sri Lanka operating for well over 70 years. In 2007 your bank signed a strategic partnership arrangement with the SLRCS to ensure disaster recovery as defined previously. It has developed special skills and expertise locally in this regard. The partnership has established a Disaster Response Emergency Fund to meet the immediate requirements of sudden disasters, natural or man made, till such time as donors begin to respond. The Fund was launched on 8 May 2007, the World Red Cross Day. Your bank intends to channel significant resources to the effort depending on necessity. In the main, contributions facilitate first aid and the distribution of food and non-food relief items to those affected by various disasters.

Investing in Children and Youth

Your bank continues to invest in children and youth not only to facilitate their future but also to build and reinforce the foundation of the Knowledge Economy.

The 'Ran Kekulu' Year-5 Scholarships and university student scholarships help high-flyers to overcome financial hardships and win nation-wide recognition for hard work behind their impressive achievements. In 2007, a total of 460 scholarships of Rs. 10,000/- each for Grade 5 students were awarded.

With the intention of inculcating savings habit among school children, your bank encouraged school children to save via Ran Kekulu Children Savings Accounts by the formation of School Savings Units (SSU) known as Ran Kekulu Sansadaya. The schools where the SSUs operate will receive assistance in numerous ways thereby benefiting all participants in the scheme.

The 18+ Savings Accounts inculcate the saving habit among the youth, and provide scholarships to those who gain admission to the highly competitive university education system in Sri Lanka. In 2007, your bank granted 80 scholarships of Rs. 30,000/- each to such students from all over the country.

In addition to the above, your bank has sponsored a number of youth oriented programmes in 2007. They included a series of 'Grade 5 Scholarship Seminars' in selected schools and the 'Child Abuse Awareness Programmes' during the course of the year. A library in the Dambulla area at a cost of Rs. 0.5 million and refurbishing the International Buddhist Training and Research Centre at a cost of Rs. 8.75 million were the other major CSR activities sponsored by your bank to improve access to knowledge and education.

Your bank continued to support sports activities for children and youth through the Ran Kekulu programme. Under this, infrastructure support in a variety of forms was provided to 350 schools across the country.

Fostering the Entrepreneur

Over the years your bank has played an important role in the delivery of special credit programmes directed at sustainable livelihoods, enterprise development, poverty alleviation, employment generation, housing, transportation, etc. Using its country-wide network to implement these special products and services, it has promoted widespread national development and social equity. Drawing on over six decades of island-wide field experience in working closely with diverse community groups, these programmes go well beyond the traditional borders of CSR efforts.

Farm machinery provided to farmers under 'Govi Shakthi Credit Scheme' at Anuradhapura

Awareness Programme for Moneragala District Officers on Poverty Alleviation Micro Finance Project Credit Scheme

Small and Medium Enterprise (SME) and Microfinance development are key strategies for poverty alleviation adopted by the Government. They have been identified as viable ways to create employment and promote economic development in rural areas with limited infrastructure resources. Hence, encouraging entrepreneurial people to start self-employment or a small business is a key building block.

Inauguration of 'Deewara Shakthi' Credit and Savings Scheme at Negombo Branch

In addition to helping initiate enterprises, CS & R programmes of your bank respond to another important need by nurturing them to graduate from small to medium-sized businesses thereby increasing the contribution to national development. By encouraging people all over Sri Lanka to increase their income through their own efforts, it fosters financial inclusion that will pave the way for geographically uniform economic development, and usher in greater economic and social equity. It also fosters financial literacy by promoting the banking habit and financial discipline among entrepreneurs in urban and rural Sri Lanka, thereby weaning them away from unregulated money markets and unscrupulous moneylenders.

Products of a 'Sookshma' micro entrepreneur at Hambantota

While continuing the programmes on entrepreneur development, your bank has sponsored the winners of the all island handicraft competition, which was conducted by the Department of National Small Industries. In 2007, the winners visited India with a view to enhancing their skills and improving the quality of their products.

ENGAGED AND EMPOWERED EMPLOYEES

The accumulated expertise of the highly experienced staff of your bank has provided a powerful competitive edge. A rich and varied human resource base, it counts competencies in a variety of fields. This human resource base has been a strong driver of change delivering significant impact on financial and operational performance. Harnessing and developing this human resource base remained a key corporate objective during the past year when several were identified for further training both locally and overseas to reach their full potential. Each staff member is reviewed on an annual basis in terms of goals and aspirations. In 2007, your bank promoted 1,484 to various senior positions while 513 bid farewell, many after over a quarter century of association with your bank.

HR Polices

Your bank has carried out a comprehensive review of its human resource strategies, policies and programmes with a view to strengthening all aspects in alignment with competition. Particular attention was placed on training and development of staff with a view to ensuring that employees are equipped with state-of-the-art knowledge and skills.

Awareness Programme for Southern Province Officers on 'Dasuna' Credit Scheme

Personnel Development

Your bank believes in the necessity of continuous professional development. Accordingly a number of training programmes were conducted during the year in order to fulfil the aspirations of Senior Management to make every attempt to produce capable, dependable and competent bankers. The dedicated Training Centre conducted over 200 programmes during 2007 for more than 11,000 participants across the country. As part of the training policy, 430 employees were sent for training programmes organised by specialised professional bodies while 117 employees travelled overseas to acquire international exposure on identified areas. Training courses covered various disciplines of management, credit, trade finance, computer skills, self-development as well as customer care and relationship management. This process includes conducting a comprehensive individual training needs assessment, which then proposes special training programmes for Branch Managers and Business Heads with the assistance of Human Resource Experts. Your bank has provided growth opportunities for all employee segments by way of conducting internal examinations. During the year, 41 such internal examinations were successfully conducted.

Recruitment Plan

In keeping with its recruitment plan, your bank employed 506 new people at various levels. The process of recruitment endeavours to attract the best available talent from across the country focusing not only on qualifications and competencies but also on attitudes and potential of the prospective candidates. A comprehensive induction programme has been designed to ease their way into life at your bank.

Employee Welfare

In keeping with a long tradition of honoring lengthy service, your bank invited over 600 employees and their families to the BMICH Hall in Colombo under the patronage of the Chairman and the General Manager to congratulate them for over 25 years of service. Your bank also continues to maintain various holiday home facilities with transport at subsidised rates as part of staff welfare. Respecting all religions of the employees, your bank ensures that designated areas are provided for prayer and religious activity.

Sporting Activities

The BoC Sports Club is a special institution continuing to build relationships across all levels of staff.
The sportsmen and women from across the country participated in events organised by the Nationalised Services Sports Federation. They also represented your bank in Indoor and Outdoor events organised at Inter-Bank level, winning several trophies in Cricket, Netball, Badminton, Volleyball and Carrom.

The Sports Club's special contribution is its capacity to build team spirit within the organisation across different levels of hierarchy. It also inspires loyalty to the institution and has generated a sense of belonging. During the year 2007 your bank also contributed in no small measure to sponsored sporting activity among the underprivileged as well as non-traditional sports.

CARING FOR CUSTOMERS

Evaluation of customer service quality can be influenced by their perception of a combination of factors such as product simplicity, service speed, pricing, rates, location etc. To retain a loyal customer base and attract new customers your bank has adopted several strategies such as introducing new products and enhancing and introducing new IT services in the year 2007. However as competitors frequently replicate innovations, your bank has followed a more viable approach of focusing on less tangible and less easy to imitate determinants of customer loyalty by making the difference in the process through enhancing its service delivery.

New Products and Services - 2007

Building products and services that are customer driven and customer focused is one of the core objectives of your bank. Your bank strives to provide a comprehensive range of borrowing and investment opportunities coupled with a high level of customer care to its diverse range of customers. Your bank introduced a number of new products during 2007 in response to changing lifestyles.

Deposit mobilization campaign at Pelwatte (Moneragala District)

"TAILORED TO FIT"

From fruit vendor to urban professional, the Bank's products are tailored to fit well. It provides customised and flexible solutions that enable a broad spectrum of customers to do business and more, with ease, security and a smile on their faces.

Customer Awareness

Your bank continues to offer products and promotions to encourage the savings habit among the lower income groups of the population as part of its responsibility to society. Last year a substantial customer awareness programme was initiated in the Mahaveli 'C' zone area of Girandurukotte, Dehiattakandiya and Aralaganwila, all located beyond 200 km. from Colombo, to encourage the people of those areas to save in addition to providing loan packages specially geared for their lifestyles.

IT Enhancements

Customer care is no longer confined to service quality but also to automation enabling them to access the Bank from any part of the country on a 24/7 basis. Your bank added important technological enhancements to its product portfolio during the year 2007. The installation of a real time on-line branch network; expansion of the ATM network; fully automated electronic processing of inward remittances; the 'e-cash Facility'; mobile and Internet banking with enhanced security have all been launched and improved further and have contributed to building customer satisfaction and convenience.

Customer Complaints

Your bank has a special quick response unit to respond to customer complaints. Now the customers of your bank have the advantage of contacting Senior Management direct with regard to their grievances.

Improving Customer Satisfaction

Excellent customer satisfaction is one of the few ways to achieve competitive advantage over others. Since your bank identified increasing customer retention rates by maintaining a loyal customer base to have a substantial impact on profits, it constantly checks and evaluates customer satisfaction through market surveys conducted by its internal Research Division. Customers compare their perceptions with actual experiences. Your bank emphasised on understanding major determinants of customer satisfaction and matching them with customer perceptions and their experiences. The continued process of your bank in obtaining customer feedback and amending its action plans accordingly led to conducting of several dedicated awareness programmes on research findings to take corrective action where needed.

Results are evidenced by the following quotes:

"At John Keells Hotels, we have relied on the Bank of Ceylon Offshore Banking Division for our funding needs. Their level of service together with their interaction with us has helped in establishing a mutually beneficial business relationship between our two institutions. They are flexible and meet with our needs in a friendly and a professional manner."

Jayantissa Kehelpannala
Director
John Keells Hotels Limited

"The Hirdaramani Group has had a strong relationship with Bank of Ceylon during the past five decades. Bank of Ceylon has been the main banker for the Group and we have received the bank's continued support during this period to grow to the levels we are today. During the recent past, the development of the IT platform at the Bank of Ceylon has helped to improve the customer service levels significantly, and we have benefited from this.

We are happy with the strong relationship that has developed between our two institutions and expect this to grow further in the years to come."

Janak Hirdaramani
Managing Director
Hirdaramani Group of Companies

"Being a customer since 1974, Colombo Dockyard PLC is proud to be associated with the Bank of Ceylon, the largest national bank in Sri Lanka.

The Bank of Ceylon has been providing us with financial services, meeting the demands of the dynamic global financial systems in the most flexible manner, assisting us in smooth operations of our national and international transactions."

Mangala P B Yapa
Managing Director/CEO
Colombo Dockyard PLC

SUPPLIER RELATIONS

Your bank operates a dedicated Procurement Division responsible for formulating all the policies, procedures and functions needed to develop and maintain mutually fair and ethical vendor relationships. All purchases are routed via this Division.

Sustainability

The main objective of the Procurement Division is to ensure an uninterrupted supply of goods and services to meet the ongoing operational needs, while equitably safeguarding the interests of stakeholders in a sustainable manner: suppliers, customers, employees, general public, Government and the economy at large. It sets the guidelines needed to achieve fairness and transparency in procurement by ensuring that employees who exercise delegated authority for purchasing always maintain the highest levels of integrity and ethical standards. Authority and responsibility for procurement starts at the highest level at the Board of Directors and exercised through the General Manager and Deputy General Manager in charge of Procurement and Supplies. A transparent and ethical procurement procedure ensures that selection of suppliers and the awarding of supply contracts are carried out in the fairest possible manner. Long-term objective of your bank is sustainability in vendor relationships.

Equitable Selection

Your bank, for the supply of goods and services maintains, a register of suppliers and contractors. Vendors are registered under six categories in accordance with their capacity to undertake work valued from under Rs. 1 million to over 20 million in stages. Progressively higher authority levels going up to the Board of Directors are associated with the higher value categories. Applications are invited for such registration and grading of suppliers and contractors by press notification. These notifications are forwarded to all provincial offices to enable them to call applications for registration on a provincial basis. This ensures that vendors in outstation areas are also given an equal chance. All received applications are duly evaluated and reported to the relevant level of authority, containing recommendations of the names to be placed in the register under the appropriate categories.

Transparent Procurement

To ensure fair and unbiased selection, no bids are to be solicited from, or any order placed with:

a) any firm that has in its employment or advisory capacity an employee of BoC or his/her spouse or dependant child, or

b) any firm that is wholly or partially owned by an employee of the Bank or his/her spouse or dependant child.

Bids are requested in a formal manner from suppliers who have registered. Public notices calling for the supply of the required goods and services are published in the daily newspapers, with the sanction of the General Manager. These give the best description of the goods or services required, closing date, place and time. Formal bid requests are typed or printed using a standard format. Bids have to be deposited in a Tender Box at the specified location or mailed by registered post to reach the specified address before a clearly specified closing date and time. All envelopes containing bids received by post before the specified deadline are date stamped, initialled by the receiving officer and deposited in the Tender Box. All late bids are irrevocably and unconditionally rejected. To assure the security of the Tender Box, its original and duplicate keys are placed in sealed covers and kept in the vault/safe where the Tender Box is located, and the lock of the Tender Box is also sealed.

The bank's authorised officers, in the presence of the Tenderers or their authorised representatives, open bids at the specified time. The details given in each opened bid are immediately read out as far as practicable, and the Tenderers are given the opportunity to note down any information they desire. Relevant data in the opened bids are recorded in a schedule as each bid is read out. The officials present endorse this schedule at the time of opening of the bids. A minimum of three bids is used in the selection procedure. Suppliers are assessed on their financial position, quoted price and their ability to perform the supply contract efficiently. All unsuccessful bidders are informed that the bids have been scrutinised and the award made on the basis of the relative merits of the offers received.

RECOGNITION

Recognition and accolades, nationally, regionally and internationally came in many forms for your bank in 2007. The most prestigious of course continues to be the AA (Ika) rating coupled to a Stable Outlook provided by Fitch. This rating is testimony to the solidity of the bank and its ability to deliver consistent and sustainable value to its multiple stakeholders. Your bank also holds the highest ranking among Sri Lankan Banks in the Bankers` Almanac.

The National Chamber of Commerce of Sri Lanka awarded your bank the Runner-Up position for the banking sector at the 2007 National Awards for Excellence and the Award for Excellence in Business and Financial Sustainability. Sri Lanka Institute of Marketing (SLIM) recognised the product Run Surekum as the Turnaround Brand of the Year with the Bronze Award. It should be noted that your bank was the only recipient of an Award in the banking sector from SLIM in the year 2007.

Lanka Monthly Digest (LMD) the premier national business magazine rated your bank, as the most respected state entity in 2007. To arrive at this award LMD interviewed 500 business leaders in both finance and industry.

Further your bank won the overall Merit Award presented by the Institute of Chartered Accountants of Sri Lanka (ICASL) for the Annual Report 2006 (Banking Sector). The 2006 Gold Award for CSR was also awarded to your bank by ICASL.

Your bank was selected Winner of public sector entities and the Runner-Up for banking sector entities at the Best Presented Accounts Award Competition of 2006 organised by the South Asian Federation of Accountants (SAFA). The prize awarded in 2007 was recognition by the rest for the best in the region. While it is a humbling experience, the award underpins confidence that your bank can compete with the best in the region.

Finally your bank won two global awards in 2007. First it was recognised globally by the League of American Communication Professionals LLC (LACP) by winning the Platinum Award for the Overall Annual Report (Banking Sector, turnover US$ 100 million-$ 1 billion), the Bronze Award for the Best Financial Report and held the 37th position in the world's Top 100 Annual Reports of 2006. Secondly International ARC Awards 2007 presented by Mercomm Inc. awarded the Gold to your bank for the Non-Traditional Annual Report of the Year.

National, Regional and International Recognition & Accolades.

CORPORATE MANAGEMENT TEAM

1. B A C FERNANDO - General Manager

BA, MBA, FIB

Counting nearly four decades banking experience, Mr. Fernando has worked at all levels across the bank and was the Deputy General Manager covering the Branch Network prior to his appointment as General Manager. A credit specialist encompassing both consumer and corporate portfolios, he has shared his credit expertise at numerous training courses and workshops. He has provided active leadership in training and restructuring initiatives.

Mr. Fernando is on the boards of several subsidiaries and associate companies. He is also a Director of Lanka Clear (Pvt) Ltd.

2. S RAJAKARUNA - Chief Financial Officer

MCIM (UK), MBA (Cranfield) UK

Mr. Rajakaruna worked for over 30 years at the London offices of Citibank, taking on various roles relating to corporate banking, risk management, finance and marketing with customers in Scandinavia, the UK and Europe. He has also undertaken various assignments covering audit, product management and treasury activities relating to Citibank portfolios in the US, South Africa and Asia. He joined Bank of Ceylon in August 2006 with a mandate to manage all financial aspects and strategic issues impacting the Bank.

He is also a Director of the Ceylon Petroleum Corporation and Chairman of its Audit Committee.

3. MS. W A NALANI - Deputy General Manager, Corporate & Offshore Banking

AIB, FIB (Sri Lanka), BA (Econ.), BPhil (Econ.)

In a career spanning 32 years, Ms. Nalani has been a Deputy General Manager for over 5 years. Prior to her present position, Ms. Nalani headed the Recovery Unit, having served as Assistant General Manager of the Metropolitan Branch, the largest middle-market business unit within the bank. She also worked in the Sabaragamuwa Province branch network covering the important economic districts of Kegalle and Ratnapura. She is a specialist in credit and recovery management and has contributed significantly to staff training.

She is a Council Member of the Association of Professional Bankers and a Director on the Boards of Merchant Bank of Sri Lanka PLC and BoC Management & Support Services (Pvt) Limited. She is also an Alternate Director of Ceybank Holiday Homes (Pvt) Limited and the Credit Information Bureau of Sri Lanka.

4. K DHARMASIRI - Deputy General Manager, Inspection & Audit

BCom. (1st Class Hons.), BPhil (Econ.), AIB (Sri Lanka)

Mr. Dharmasiri has been a Deputy General Manager for over 5 years. He has over 32 years of diversified banking experience, both within and outside Sri Lanka. He was actively involved in restructuring and automation of branches. He recently worked with the implementation team for BankTrade, a bespoke IT solution for trade finance initiated by Bank of Ceylon.

Prior to his current assignment, he worked in Finance & Planning where he specialised in budget policies and corporate planning. He also has wide experience in Corporate and Offshore Banking and overseas branch operations. He was the Country Manager of Bank of Ceylon branch in the Republic of Maldives for a term of three years. He later assumed duties as the Managing Director of Nepal Bank of Ceylon Limited in Nepal.

Mr. Dharmasiri serves as a Director on the Boards of Capital Development and Investment Company PLC and Lanka Securities (Pvt) Limited.

5. MS. K KULATUNGA - Deputy General Manager, Support Services

BA, BPhil, FIB, AIB, Diploma in Bank Management, Diploma in Personnel Management

Ms. Kulatunga has over 32 years of wide experience in branch operations with leadership positions in Colombo, Kurunegala and the Eastern Province. She has also served in HR & Training, Rural Banking and Reorganisation Divisions. She has played a pivotal role in ensuring speedier and efficient processing of branch activities, whilst being in charge of Support Services.

She is a Member of the Governing Board of the Institute of Bankers, Sri Lanka and a Director of the Hotels Colombo (1963) Limited (The Grand Oriental Hotel). She is also an Alternate Director of Property Development PLC and Mireka Capital Land (Pvt) Limited.

6. M T PERERA - Deputy General Manager, Finance & Planning

FCIB (London), Executive Diploma in Business Administration

In the course of a career spanning nearly 40 years, Mr. Perera held senior positions in several large operating divisions including the internal audit and inspection function. He also served abroad in London and headed the branch operation in Karachi. He has represented the bank at numerous important events, among them the SIBOS '98 International Conference of SWIFT User Groups.

Mr. Perera retired from the bank on 15 January 2008. Prior to his retirement he was on the Boards of several subsidiaries. He is the immediate past President of the Association of Chartered Bankers of Sri Lanka Trust and a Life Member of the Association of Professional Bankers.

7. C SAMARASINGHE - Deputy General Manager, Product & Development Banking

BA (Hons.), BPhil (Econ.)

Mr. Samarasinghe counts over 30 years service across the bank. He was instrumental in acquiring a large financial house based in the Middle East and played a key role in introducing organisational and structural changes in the bank in response to the changing business environment, including the founding of the Central Back Office.

Mr. Samarasinghe serves on the Board of Merchant Credit of Sri Lanka Limited and is the Chairman of Transnational Lanka Records Solutions (Pvt) Limited. He is Vice-Patron of the Nationalised Services' Cricket Association and the Nationalised Services' Sports Federation.

8. H M A B WEERASEKARA - Deputy General Manager, International & Treasury

BA Econ. (Hons.), BPhil (Industrial Management)

Mr. Weerasekara's over 30 years banking career spans many aspects of national and international banking. He has extensive experience in the areas of Domestic, Offshore, Corporate, Trade Finance and Treasury operations.

He served as a Deputy Manager of the London Branch from 1998 to 2001 and serves as a Director of Merchant Credit of Sri Lanka Limited and chairs the Audit Committee of that Company at present.

9. M A FERNANDO - Deputy General Manager, Human Resources Development

BA (Hons.)

Mr. Fernando counts 35 years of experience of branch and retail banking, development banking and specialist lending operations. He managed the London Branch for three years before assuming his current position in 2005.

He is a Director of BoC Travels (Pvt) Limited and Ceybank Holiday Homes (Pvt) Limited. He is also an Alternate Member of the Governing Board of the Institute of Bankers, Sri Lanka.

10. I D WEERASENA - Deputy General Manager, Branches

BA (Econ.), BPhil (Econ.)

During his 32-year banking career, Mr. Weerasena has specialised in branch banking and development lending having served in several districts across the country. He also carries wide knowledge of the credit card business. He is currently in charge of the network of branches.

11. W D F WIMALARATNE - Deputy General Manager, Risk Management

FIB, Diploma in Bank Management, P.G. Diploma in Business and Finance Administration

Mr. Wimalaratne counts over 38 years experience specialising in operational banking. He also had a stint as Deputy Country Manager at the Karachi Branch. During his tenure as Assistant General Manager (North Western Province), he served on the Boards of Wayamba Development Bank, the Industrial Services Bureau and the Wayamba Chamber of Commerce and Industry.

12. M KIRITHARAN - Chief Legal Officer

Attorney-at-Law and Notary Public (SL), Solicitor (UK), Executive Diploma in Business Administration

In addition to overseeing the legal affairs of the bank, Mr. Kiritharan is a Director of BoC Property Development & Management (Pvt) Limited and an Alternate Director of Mireka Capital Land (Pvt) Limited. He was formerly a Director on the Board of Merchant Bank of Sri Lanka PLC. He served as Chief Examiner at the Chartered Institute of Bankers, Sri Lanka and President and Secretary of the Association of Lawyers in Employment. He is a member of the Bar Council of the Bar Association of Sri Lanka and of the Law Committee of the Sri Lanka Banks' Association. He is also the President of the BoC Sports Club and BoC Hindu Association.

EXECUTIVE MANAGEMENT TEAM

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P M Liyanage
Internal Auditor

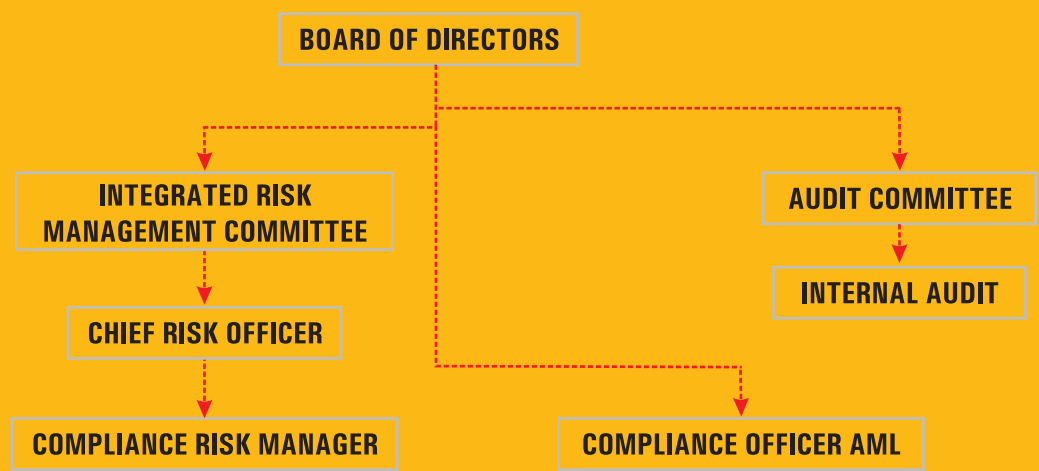
1. S Liyanwala - *AGM (Recovery - Corporate.)*
2. D N Wanniarachchi - *AGM (Restructuring Project)*
3. W A S Wimalaratne - *AGM (Pettah Branch)*
4. M K Nandasiri - *Country Manager (Chennai)*
5. L L N Perera - *AGM (International)*
6. B C D Wijayakulasuriya - *AGM (Development Banking)*
7. K D Wimalasena - *AGM (Personnel)*
8. R U D S Dharmawickrema - *AGM (Branch Credit)*
9. Y A M M P Karunadharma - *AGM (Metropolitan Branch)*
10. S W S Fernando - *AGM (Province Sales Mgt.)*
11. M R D Thilakasiri - *AGM (Finance & Planning)*
12. K M Amarasuriya - *AGM (Credit Audit)*
13. B A Arumainayagam - *AGM (Northern Province)*
14. R G V S Gunatilake - *AGM (Marketing)*
15. W K I Kularatne - *AGM (Western Province North)*
16. I H Chandrasiri - *AGM (Province & Branch Audit)*
17. L T S De Silva - *AGM (Business Process Re-Eng.)*
18. K A D Fernando - *AGM (Offshore Banking)*
19. J W P Mohotti - *AGM (Support Services)*
20. D M Gunasekara - *AGM (Corporate Relations)*
21. P J Jayasinghe - *AGM (Western Province South)*
22. P A Lionel - *AGM (Treasury & Overseas Branch)*
23. H M Mudiyanse - *AGM (North Western Province)*
24. N Welengoda - *AGM (Southern Province)*
25. R N Edirisinghe - *AGM (Customer Relations)*
26. S H Anandagoda - *AGM (Credit Card Centre)*
27. D L C Atapattu - *AGM (Central Province)*
28. H K W Gunasinghe - *AGM (North Central Province)*
29. G R Hettithanthiri - *AGM (Superannuation Schemes)*
30. K A D A Pemadasa - *AGM (Administrative Services)*
31. D S P R Senanayake - *AGM (Eastern Province)*
32. P R Unawatuna - *AGM (Uva Province)*
33. L W Wijesundera - *AGM (Sabaragamuwa Province)*
34. K G Jinadasa - *Deputy Chief Legal Officer (Operations)*
35. M K Muthukumar - *Deputy Chief Legal Officer (Recovery)*
36. W K Samarasinghe - *Assistant Director - IT (App. Systems)*
37. H R F Fonseka - *Assistant Director - IT (Operations/Tech. Support)*
38. J S Siriwardane - *Secretary to the Board*

COMPLIANCE REPORT

Compliance is the state of being in accordance with established legislation, rules, regulations, guidelines and specifications or the process of becoming so. The initial purpose of compliance at your bank was to act as a mitigating factor to reduce the risk level of non-compliance under legal and regulatory requirements. Over the years, compliance has evolved into a more integral business component with its focus on enhancing the premier status of your bank as a balanced, forward looking good corporate citizen befitting its role as the leading financial institution in Sri Lanka.

Globally the Financial Services industry has been engulfed by various regulatory shortcomings threatening market disruption thereby increasing the pressure to enforce financial system stability and safeguard the interest of various stakeholders. Well-known corporate failures worldwide added to such pressure. In the circumstances importance of compliance and the role of regulators and legislators have become increasingly visible and forceful. Your bank is gearing itself to applying international best practices such as guidelines issued by Bank for International Settlements (BIS) specially focusing on BASEL II, COSO - Enterprise Risk Management Framework and guidelines from Sarbanes Oxley Act to strengthen and embed the compliance function. Locally, legislation and regulations have been enacted to fall in-line with global trends in financial accounting and reporting. Other rules on banking operations such as the prevention of money laundering and terrorist financing have strengthened the stability of the financial system. Although the application of all these rules and regulations is not without incremental cost, your bank has adopted many of the initiatives and is in the process of complying with the remainder as soon as practically possible.

BoC COMPLIANCE SYSTEM ORGANISATIONAL STRUCTURE



Your bank is committed to promoting strong business ethics and accountability. As the premier financial services institution in Sri Lanka, to promote and monitor compliance with all applicable laws, rules and regulations is high on its corporate agenda. In doing so the Board of Directors has undertaken the challenge and the responsibility to oversee regulatory and legal compliance assisted by in-house experts in Legal, Compliance, Internal Audit and Risk Management. In addition to ensuring compliance with rules, regulations and legislations, the focus of your bank is aimed at:

- Identifying emerging compliance risks
- Identifying and sharing best practices
- Exchanging information and resources
- Evaluating compliance needs and opportunities
- Overseeing and implementing compliance initiatives

To achieve the above compliance objectives, programmes for each operating division are under construction. Such divisional compliance plans will be in-line with bank-wide regulatory risk and compliance requirements with quality assurance uppermost.

REGULATORY COMPLIANCE

On a monthly basis the Board of Directors review the timely submission of returns by all responsible divisions. Such review ensures that all mandatory regulatory requirements have been complied with and the bank is free from such compliance risk.

Central Bank of Sri Lanka (CBSL), as the regulator issues directions under the powers vested in it by the Monetary Law Act No. 58 of 1949 to commercial banks. All such directions are binding and have to be complied, within the permitted time frame. In the year 2007, among several directives applying to Licensed Commercial Banks it issued the following:

- Ownership of Issued Capital carrying voting rights
- Customer Due Diligence - 'Know Your Customer' procedures
- Maintenance of Capital Adequacy

Your bank is also subject to on-site and off-site supervision by CBSL. Off-site supervision is carried out based on returns submitted to CBSL on a weekly, monthly and quarterly basis. Returns submitted to CBSL covers a host of financial aspects including the following - Capital Adequacy, Classified Loans &

Advances, Liquid Asset Ratio, Government Exposure, Related Party Exposure, etc. In terms of on-site supervision, statutory inspection of your bank is provided for under the Banking Act.

Under such legislation teams of regulators review various aspects of your bank by inspection of internal documents and records of any single operating division or the entire bank. For the year 2007 there were no such on-site statutory supervisory inspections. Over the last 3 years, a statutory inspection was undertaken in 2006.

Early in 2007, based on the global moves in that direction, your Board recognised the importance of a sound Corporate Governance structure. Accordingly a voluntary Corporate Governance Code was developed and adopted. Subsequently CBSL issued a draft mandatory code effective 1 January 2008. Your bank as explained in the Governance Report has now adopted a combined comprehensive version with a separate Board Sub-Committee established to ensure compliance.

The BASEL II Capital Accord is another important regulatory requirement introduced during 2007. Although compliance with its requirements is due only from 1 January 2008, your bank has been operating under its rules during 2007 and has been in compliance with it throughout 2007.

The Financial Intelligence Unit (FIU) was established within CBSL under the Financial Transaction Reporting Act to monitor anti-money laundering (AML) activities and measures combating terrorist financing across the island. AML Compliance Unit within the bank was effective throughout 2007 and submitted returns on every 15-day intervals to the FIU on Cash Transactions and Electronic Fund Transfers above Rs. 500,000/-. In addition, the AML Compliance Unit completed a branch-wide awareness programme on the subject in 2007 capturing a wide segment of employees. The awareness programme included Know Your Customer (KYC) Policies covering both existing and new customers.

BoC as a commercial organisation is liable for the payment and collection of various taxes including Income Tax, Value Added Tax, Debit Tax, Withholding Tax, PAYE Tax any other applicable taxes or levies to various charging authorities such as the Inland Revenue, Provincial Authorities, etc. Compliance monitoring systems within the Bank ensures their timely payment and submission of relevant returns.

In terms of Financial Statements, the accounting principles adopted by your bank comply with Sri Lanka Accounting Standards (SLAS). To a large extent SLAS are compatible with the International Accounting Standards (IAS)

LEGAL FRAMEWORK

Operations of your bank is fundamentally governed not by one but by three pieces of legislation that have been in force for several years. They are the Monetary Law Act No. 58 of 1949, The Bank of Ceylon Ordinance (Chapter 397) and the Banking Act No. 30 of 1988. With the recent introduction of AML related legislation, the legal environment covering the banking industry in Sri Lanka underwent a significant change enabling Financial Institutions to combat money laundering and terrorist financing.

Given its premier status locally and largest presence via its network of correspondents globally, your bank developed and applied AML and KYC processes that not only maintained its status but enhanced it. In Sri Lanka, the banking industry agreed to apply standardised processes developed jointly across it. Such standardised processes include the following initiatives:

1. Appointment of an AML Compliance Officer
2. Obtaining Board Approval for AML Policies
3. Issuing Instruction Circulars relevant to AML/CTF
4. Producing Suspicious Transaction Reports
5. Co-ordinating between FIU and Criminal Investigations Department (Police)
6. Conducting Comprehensive Training Programmes
7. Initiating a Questionnaire for Correspondent Banking Relationships

In summary the negative consequences of non-compliance go beyond the mere financial value of a transaction or the resulting monetary penalty that may be imposed by the regulator. In the event of non-compliance the entire hard earned reputation of an entity can suffer and be tarnished beyond repair jeopardising its franchise. Such reaction can prove to be catastrophic with the ultimate loss of banking licenses. Your bank is aware of the possibility of such consequences and as the premier state-owned financial institution, it remains vigilant at all times to ensure that its hard-won reputation remains intact.

CORPORATE GOVERNANCE

Both the Board of Directors and Corporate Management of your bank believe in and are committed to strong governance and have identified governance as the critical success factor of a sound control environment, which will ultimately improve operational efficiency and enhance the brand image. Both also view a sound system of governance as fundamental in attracting and maintaining public confidence in the institution especially because it is a Government-owned enterprise. The pivotal and dominant role your bank plays in the Sri Lanka economy carrying substantial influence and leadership over many matters of policy and practice are other reasons why both your Board and Corporate Management consider good governance important and a guiding framework for the future.

Good Corporate Governance, which embodies transparency, disclosure and accountability, is the primary responsibility of the Board of Directors. Corporate Management for their part carries no less responsibility and is the driving force in its practice. Good governance leads to long-term shareholder value and enhances the interests of other stakeholders. In contrast absence or erosion of good governance would adversely affect the interests of all stakeholders, the institution itself suffering the loss of reputation and market acceptance.

Conscious of the many roles of the Government in the life of your bank as Owner, Customer, Regulator and Auditor, the Board of your bank established a Corporate Governance Committee in July 2007, thereby assuming the leadership role in shaping Good Governance within the Bank. Its purpose was developing and recommending a set of Corporate Governance Guidelines and assisting the Board in implementation. Significant details of the Corporate Governance Committee are noted below. Further a code was drafted with the intention of obtaining transparency and demonstrating commitment to good Corporate Governance.

On the recommendation of the Corporate Governance Committee, the Board adopted this Code referred to as the 'Code of Best Practice in Corporate Governance', which in addition to being principle-based, elaborates on more specific Corporate Governance structures, processes, and practices. The Code sets out the Corporate Governance framework based on internationally recognised best practices and principles. Among them are principles from the Organisation for Economic Cooperation and Development (OECD) and the BASEL Committee. Input was also taken from Central Bank of Sri Lanka (CBSL) publications including the Mandatory Code as well as from the new Companies Act No. 7 of 2007 of Sri Lanka.

The practices your bank has adopted are the ones that best suit its objectives as set by its owners and the political, economic and social aspects of its operating environment. This statement below describes some of the structure, processes and procedures of governance at your bank.

BOARD OF DIRECTORS

Under the current legislation, as a wholly owned state banking corporation, the Minister in charge of the subject of Finance appoints the Board of Directors of your bank. One of them is a representative of the Ministry of Finance. The same Minister also selects one of the appointed Directors as the Chairman of the Board. Subject to reappointment, the Directors have tenures not exceeding a period of three years. During the year under review the Board has adopted a Code of Ethics for them.

Among the responsibilities of the Board are the following:

- Formulation of policies and strategies and monitoring successful implementation thereof.
- Approval of the budget and the corporate plan.
- Overseeing the business and affairs of the Bank.
- Ensuring succession planning for the Senior Management.
- Approval of credit facilities beyond the delegated authority of the Credit Committee.
- Decisions on major capital investments and expansions.
- Approval of annual and interim Financial Statements for publication.
- Appointment of members to Boards of subsidiaries.
- Appointing staff based on the requirements of the Bank.
- Ensuring that staff is acquiring adequate skills and knowledge at all levels.
- Ensuring that adequate risk management and reporting systems are in place and are being maintained.
- Ensuring compliance with applicable laws, regulations and principles of Corporate Governance.

In taking decisions, the Board obtains professional advice from external sources whenever the Board deems it necessary. When there are major changes in the Banking Industry, the Board is educated of them through seminars, presentations, etc. An Attorney-at-Law functions as the Secretary to the Board to ensure compliance with Board procedures, relevant rules and regulations.

Regular Board Meetings were held monthly during the year 2007 while special Board Meetings were convened as and when required. Presently two meetings are held per month. Sixteen Board Meetings were held during the year under review. The average attendance of individual Directors at Board Meetings was in the region of 86%.

The Board of Directors has established several Sub-Committees to fulfill its functions as follows:

Audit Committee

Audit Committee ensures the adequacy and improvement of the network of risk management and control processes within the Bank. The Committee's Charter and the laid down terms of reference govern functionalities of the Audit Committee.

The report of the Audit Committee appears on page 70.

Corporate Governance Committee

As stated earlier, Corporate Governance Committee comprises the following three members of the Board:

1. Mr. R Sivaraman (Chairman)
2. Mr. S Abeysinghe or in his absence his alternate Mr. V Kanagasabapathy
3. Mr. C K Kularatne

The General Manager and Chief Financial Officer attend all its meetings. The other members of the Management attend the meetings as decided by the Committee. The Secretary to the Board functions as the Secretary to the Committee. The quorum of the Committee is two.

The main responsibilities of the Committee, include the following:

- Develop and recommend Corporate Governance Guidelines.
- Evaluate the current role and functions of the Board and its Committees, oversee the business and affairs of the Bank are successfully performed and in a manner consistent with its Corporate Governance Guidelines and consider Board recommendations presented for approval.
- Review periodically the Code of Ethics for the Directors and employees.
- Ensure implementation of the guidelines.

Management Committee

The Management Committee of the Board comprises the following four members of the Board:

1. Dr. B Kaluarachchi (Chairman)
2. Mr. G Gallage
3. Mr. C K Kularatne
4. Mr. R Sivaraman

The quorum for the Committee is two members. The Secretary to the Board functions as the Secretary to the Committee. The General Manager attends the meetings by invitation. The other members of the Management are invited to the meetings as and when required.

The responsibilities of the Committee include examining matters pertaining to human resource management, organisational structure and succession planning. Its terms of reference also include matters relating to elimination of wasteful expenditure and corrupt practices. The Committee met once during the year under review as many of the issues identified above are reviewed in various other committees.

CORPORATE MANAGEMENT

Corporate Management consisting of the Chief Financial Officer and Deputy General Managers headed by the General Manager is responsible for executive decisions, administration and operation of your bank. In keeping with Board approved guidelines for promotion and recruitment, the Board appoints all members of Corporate Management.

The Sub-Committees established and fulfill functions delegated to Management are as follows:

Credit Committee

The overall objective of the Credit Committee is to formulate and set policy guidelines in order to maintain and develop a diversified credit portfolio that will achieve adequate returns in keeping with corporate objectives. The Committee will approve credit applications within its delegated authority.

The Credit Committee consists of the General Manager, Chief Financial Officer and four Deputy General Managers. The Assistant General Manager (Corporate-Credit) acts as the Secretary to the Committee. At a minimum, the Committee meets twice a month.

The Committee is responsible for establishing policy with regard to credit matters. It sets out, establishes, reviews and recommends improvements to credit policies and ensures that adequate processes and underwriting standards are in place. Authority to approve credit facilities has been delegated at branch, province and head office levels with the General Manager holding the highest approval limit. Facilities exceeding the limits referred to above are forwarded to the Credit Committee for approval. The final authority, however, remains with the Board of Directors.

Asset and Liability Management Committee (ALCO)

The key objective of ALCO is to ensure optimum utilisation of the available financial resources to maximise earnings while ensuring the adequacy of liquidity. It comprises the General Manager, Chief Financial Officer and Members of the Corporate Management representing the Business Divisions of the Bank. The General Manager chairs ALCO. The Assistant General Manager (Treasury) acts as the

Secretary to this Committee. The Chief Manager (Treasury) and Chief Dealer attend ALCO meetings by invitation. Meetings are held at least once a month.

ALCO is responsible for the interest rate structure of all assets and liabilities and for the optimisation of net interest margin. It monitors liquidity and formulates the funding strategies.

It is also responsible for the distribution and management of assets and liabilities in terms of volume, tenor and return. The impact of key market risk exposure variables are analysed and strategies formulated to optimise earnings.

The Committee reviews and recommends policies, limits and guidelines within which ALCO strategies are to be executed. It ensures that the key market risks and variables are thoroughly reviewed and evaluated when market risk exposure decisions are made and profitability is optimised within acceptable risk limits. Further, it reviews, recommends and approves large capital outlays and investments.

Personnel Policy Committee (PPC)

This Committee is responsible for managing the human resources - the most valuable asset of the Bank. The Committee comprises the General Manager, four Deputy General Managers including Deputy General Manager (Human Resource Development) and Assistant General Manager (Personnel).

The General Manager chairs the Committee. The Assistant General Manager (HR Policy & Training) acts as the Secretary to the Committee. The Committee meets once a month.

The PPC decides the key personnel policies and processes in relation to human resources in keeping with strategic plans and ensures that a sufficient number of qualified and experienced staff are in the correct positions at all times.

In addition to identifying knowledge and skill needs for development through training, it also ensures that a mechanism for recognising the performance and contribution of employees is in place so that all staff are evaluated regularly. The Committee is also responsible for reviewing and recommending the methods and levels of remuneration and compensation and for making available other benefits to support the staff in achieving corporate goals. It develops strategies for improving labour relations and reviews and recommends conditions and amendments for collective agreements.

FINANCIAL DISCLOSURES

The Board of Directors is responsible for presenting Financial Statements that provide a true and fair view. The Financial Statements are prepared in accordance with the requirements of the Sri Lanka Accounting Standards and the provisions of the Banking Act No. 30 of 1988. They adhere strictly to the accounting formats and other procedures laid down by the regulatory authorities for preparing and presenting Financial Statements.

These Financial Statements are published quarterly in major newspapers and are also made available at the Bank's website. All publicly available information is freely accessible to all stakeholders. Interests of Directors in any contracts and related party transactions appear on page 119 of the Annual Report.

INTERNAL CONTROL

The Board is responsible for the operation of an adequate system of internal control. The Audit Committee oversees the review and assessment of internal controls. The international trend is the standardisation of internal control systems to a generally accepted framework. Your bank is in the process of implementing an enterprise-wide risk management based internal control system.

FINANCIAL TRANSACTION REPORTING

The Bank has taken steps for preventing money laundering, and reporting suspicious financial transactions by the application of KYC ('Know Your Customer') policies. In this respect, a Compliance Manager and a team has been appointed. In terms of the Financial Transactions Reporting Act No. 6 of 2006, the Bank continues to furnish the data relating to all cash and electronic transactions other than inter-bank transactions exceeding Rs. 500,000/- on a bi-weekly basis to the Financial Intelligence Unit within CBSL.

RISK FACTORS

Global Risks 2008 published by the World Economic Forum (WEF) recently, highlights the need for fresh thinking and concerted action on several risk issues. It expressed concern that the current global credit/ liquidity crunch will ignite a US induced recession and recommended fresh ideas in terms of managing systemic financial risks, country risks and new roles for the financial sector in the transfer of risk. Security of food, issues of equity and trade-offs will play an increasingly dominant role making the design of global policies both difficult and necessary.
Your bank examines and attempts to provide some understanding of such risks below. Your bank also reviews the more risks that threaten its well-being and performance in the short to medium-term more directly on a continuing basis.

GLOBAL RISKS 2008

The WEF Report identifies **four** issues that will have global impact over the foreseeable future. While their impact seems inescapable, at the very least they need better understanding. First among the four issues is **Systemic Financial Risks**. The re-pricing of risk within the financial markets currently underway indicates that although diversification delivered mitigation, threats to systemic risk remains acute. Systemic risk also arises from the capacity of consumption-led expansion in Asia to drive the global economy in the wake of a recession in the US. Given their large current account deficits, weaknesses are also visible in both eastern and central European economies.
Fragmentation in the ownership of risks resulting from changes in financial markets also pose threats in terms of transmitting them between markets and market participants. Although capacity to assume and distribute risk has improved, stress testing, liquidity management and risk evaluation need improvement via more collaboration between the private and public sector. The WEF Report places **Food Security** next on the agenda of global risk issues. With global food reserves at a 25-year low, supplies are now vulnerable to international crisis or natural disasters. Drivers of food security - population growth, climate change, use of crops to manufacture biofuels, lifestyle changes - are likely to sharpen in the future thereby reversing the past trends in cheaper food prices and challenging the current values of equity and fair-play. The third risk issue to be confronted is **Supply Chain Risk**. Both international and intra-regional trade has been expanding over past two decades underpinning global efficiency and prosperity. Additionally such trade has led to the sharing of risks, which can also cause risks to be aggregated. Disruptions resulting from dependence on external suppliers are uppermost. **Availability of Energy** is the fourth risk issue. With a near 40% increase in oil demand over current levels by 2030, scope for a fall in energy prices is limited. Such significant mis-matches between producers and users need to be addressed sooner rather than later through better dialogue at all levels.

Your bank now reviews the risks that threaten its well-being and performance more directly on a daily basis.

ECONOMIC CONDITIONS

Profitability is likely to be affected by global and local economic conditions, such as the levels and liquidity of both domestic and global financial and other asset markets, the absolute and relative level and volatility primarily of interest rates for rupees and US dollars. Other variables having an impact would be commodity prices including oil, equity prices, investor/customer sentiment, inflation and the availability and cost of credit. Your bank generally maintains a large portfolio in fixed income securities and smaller portfolios in currency and equities. The revenues derived from these portfolios are directly affected by economic and market conditions including the valuation of these portfolios. The credit quality of corporate on-balance sheet assets and off-balance sheet exposures is also affected by economic conditions, as more loan delinquencies would result in a higher level of write-offs and increased provisions for credit losses. The consumer businesses are particularly affected by factors such as: prevailing interest rates; the rate of unemployment; the level of consumer confidence; residential real estate values and changes in consumer spending and the number of personal bankruptcies.

CREDIT, MARKET AND MARKET LIQUIDITY RISK

The earnings of your bank may be impacted through its market risk and credit risk positions and by changes in economic conditions. Earnings are also dependent on the extent to which management can successfully implement effective risk management processes. In the case of your bank, earnings are heavily dependent on how effectively it evaluates the cost of credit and manages its portfolio of risk concentrations. In addition to the direct impact of the successful management of these risk factors, management effectiveness is taken into consideration by the rating agencies, which determine the credit ratings of your bank and thereby affect its cost of funds.

COMPETITION

Merger activity and consolidation in the financial services industry has not only commoditised many products but has also produced global entities that are capable of offering a wide array of financial products and services at keen prices. Globalisation of the capital markets and financial services industries exposes your bank to competition at both the global and local levels. In addition, technological advances and the growth of e-commerce and regulatory developments have made it possible for non-depository non-banking institutions to offer products

and services that traditionally were banking products. The capacity of your bank to grow its businesses, and therefore its earnings, is affected by such competitive pressures and is dependent on attracting and retaining talented and dedicated employees.

COUNTRY RISK

Although international banking is beset with country risk, your bank is currently operating directly only in 3 countries and hence such risks are minimised. To the extent overseas expansion is predicated on the well-being of the Sri Lankan diaspora resident in foreign countries, some risk is present that may impact earnings.

OPERATIONAL RISK

Your bank is exposed to a number of operational risks, including the risk of fraud by employees and outsiders, clerical and record-keeping errors, integration of numerous acquired businesses and computer/telecommunications systems malfunctions. Given the high volume of transactions, certain errors may be repeated or compounded before they are discovered and rectified. In addition, the necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. Your bank may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example - natural disasters, acts of terrorism, epidemics, computer viruses, and electrical/ telecommunications outages), which may give rise to losses in service to customers and/or monetary loss. All of these risks are also applicable where reliance is placed upon third party vendors to provide services to it and its customers.

FISCAL AND MONETARY POLICIES

The businesses and earnings of your bank is also affected by the policies and rules adopted by regulatory authorities and Governments. Intervention is now a global phenomenon affecting interest bearing assets, deposits and the value of financial instruments. The application of proposals pertaining to good governance, money laundering and know your customer policies also affect costs and hence profitability.

RISK MANAGEMENT

As shown by recent turmoil in the international markets, prudent risk management is essential for the longer-term stability of your bank. Its risk management strategy strives to ensure that only well calculated risks are undertaken while at the same time ensuring that the integrity and reputation of the institution is protected. Systematic identification of risks and a structured processes for managing them, which includes well-defined responsibilities and demarcated areas of accountability, are vital for the longer-term success of the bank.

The volatile and fragile condition of markets in the world today makes risk management more challenging than ever before. Against this backdrop, the capacity to capture and measure risks, to monitor their impact in real time and to manage their outcome, is increasingly becoming both a competitive advantage and an essential requirement to remain in the business of banking.

Your bank is constantly reviewing its risk management process and every year takes steps to refine it. The new Corporate Plan, to be implemented in 2008 will introduce some new risk management processes and structures. Over time under the new corporate plan, risk management will operate independently of the SBUs and will have a reporting line to a Chief Risk Officer (CRO). The CRO will in turn be accountable to the CFO and ultimately to the GM/CEO. New standards for financial institutions introduced by BASEL II will be integrated into the new risk management strategy and framework. It will be concentrated in the Office of the CRO. The CRO will set standards for assessing and reporting of risk, manage the independent risk managers at the business unit level, approve business-level risk management processes and control major risk exposures across the different portfolios. At the business unit level, every independent risk manager will be responsible for establishing and implementing risk management policies and practices within their units.

On a daily basis your bank manages in the main, three types of risks as indicated below:

- Credit risks, which results mainly from the inability of either a borrower or counterparty to meet its obligations;
- Market risks, which arise from fluctuations in the market, including changes in value caused by fluctuating interest rates, exchange rates, equity prices and commodity prices; **and**
- Operational risks which result from inadequate or failed internal processes, people, systems or external events.

The section below reviews how your bank manages these different types of risks.

MANAGING CREDIT RISK

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in many normal business activities, including lending, whether secured or clean, trading transactions and when acting as an intermediary on behalf of customers and other third parties. In terms of managing credit risk, the Credit Policy Committee (CPC) formulates overall policy and recommends the delegation of approval authorities and borrower exposure limits. All exposures outside the delegated authorities are subject to approval by the Board of Directors. Additionally the credit risk management process relies on oversight mechanisms to ensure consistency with business-specific policies and practices. Finally the Internal Audit Unit reviews the portfolio and process and individual exposures on a regular basis. Large exposures attract more frequent and early review by Internal Audit.

CONSUMER RISK

One of the fundamentals in this area is establishing sound consumer credit policies and ensuring that they are applied across portfolios in a consistent manner. As seen by the sub-prime debt/mortgage crisis continuing to unfold in the US, the problem is rooted in a lack of application of simple policies and process steps. Beyond such policies, risk management entails approving business specific processes, monitoring business risk, management performance, providing ongoing assessment of portfolio credit risk and approving new products and new risks. Credit approval for a product or business is tailored to meet internal audit requirements, profitability and credit risk portfolio performance.

The consumer business is managed so as to obtain an island-wide portfolio diversified by customer type, product and location. Credit loss is expressed in terms of annualised net credit losses as a percentage of average loans. Consumer credit includes loans and leases made to small and middle-market businesses.

CORPORATE RISK

For corporate and large SME clients the credit process will be grounded in a series of fundamental principales and policies as the new plan reaches full implementation. The main elements of these principles and policies are noted below, some of which are already implemented:

- Joint business and independent risk management responsibility for approving and managing credit risks - this aspect will receive greater emphasis as implementation progresses;
- Portfolio limits to ensure diversification and maintain risk/capital alignment;

"BALANCING PROFITS WITH RESPONSIBILITY"

As Bankers to the Nation we balance profitability with responsibility. While we deliver financial value to our shareholders we also deliver social value to our other stakeholders. Our goal is to generate wealth in multiple ways.

- A minimum two credit officer sign-off on any extension of credit - one from a sponsoring credit officer in the business and one from a credit officer in independent credit risk management - again this standard will receive greater emphasis as implementation progresses;
- Risk rating standards, applicable to every obligor and facility; **and**
- Consistent standards for documentation and remedial management.

In terms of portfolio mix, although some concentration is visible, it is diversified by geography, industry, currency and tenor. The maintenance of accurate and consistent risk ratings across the corporate credit portfolio facilitates the comparison of credit exposure across a variety of variables such as industries, geographic regions and credit products. Upgrades will include Obligor Risk Ratings reflecting an estimated probability of default derived primarily through the use of statistical models. Among other enhancements that will come into force are Facility Risk Ratings based on the obligor risk rating and factors that affect the loss-given-default of the facility such as support or collateral.

MANAGING MARKET RISK

Market risk includes liquidity risk and price risk, both of which arise in the normal course of business of any financial institution. Liquidity risk is the risk that an entity may be unable to meet a financial commitment to a customer, creditor or investor when contractually due. Price risk is the risk to earnings arising from fluctuations in interest rates, foreign exchange rates, equities and commodity prices and may be incurred in both non-trading and trading portfolios.

PRICE RISK

Non-trading portfolios are managed using a common set of standards that define, measure, limit and report market risk. Reporting metrics measure the change in either income or value of positions taken under various rate scenarios and how it differs from market expectations. In the case of floating rates, the timing of the rate resets and market indices need constant monitoring. These customer transactions result in risk exposures, which may be related to differences in the timing of maturities, rate resetting for assets and liabilities or the resetting of positions.

Among the functions of the Treasury within your bank is to evaluate the risk arising from customer transactions and to manage its impact so that unexpected changes in the markets do not adversely impact the Net Interest Income (NII) of the bank. In order to manage these risks effectively, the Treasury modifies customer pricing or enters into transactions with other institutions that may have opposite risk positions.

The principal measure of risk to earnings from non-trading portfolios due to changes in interest rates is the Interest Rate Exposure (IRE). The IRE measures the change expected in the Net Interest Margin (NIM) in each currency that results from unexpected changes in market rates. Other factors such as changes in volumes, spreads, margins, and the impact of prior period pricing decisions can also change current period interest income, but these are not captured by IRE. Other tools are also employed in managing these risks. Among them is stress testing the impact of non-linear interest rate movements on the value of the Balance Sheet, analysis of portfolio duration and volatility, particularly as they relate to mortgages and other longer-term assets to manage these additional risks.

Price risk in trading portfolios is measured through a complementary set of tools, including factor sensitivities, value-at-risk and stress testing. Each trading portfolio has its own market risk limit framework. Factor sensitivities are defined as the change in the value of a position for a defined change in a market risk factor (e.g., the change in the value of a Treasury bill for a one basis point change in interest rates). It is the responsibility of independent market risk management to ensure that factor sensitivities are calculated, monitored and limited, for all relevant risks taken with regard to a trading portfolio.

Value-at-Risk (VAR) estimates are also used in managing market risk. It estimates the potential decline in the value of a position or a portfolio, under normal market conditions, over a particular holding period at a specific confidence level. The VAR method incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors. VAR for the whole bank is based on the volatilities of and correlations between several market risk factors.

Under the new framework stress testing will be emphasised on individual trading portfolios and on aggregations of portfolios and businesses. It will be the responsibility of independent market risk management together with the businesses, to develop stress scenarios, review the output of periodic stress testing exercises and use the information to make judgements on the appropriateness of exposure levels and limits.

Risk capital for market risk in trading portfolios is based on an annualised VAR figure with adjustments for intra-day trading activity. Total revenues of the trading business consist of customer revenue, which includes spreads from customer flow and positions

taken to facilitate customer orders; proprietary trading activities and net interest revenue. All trading positions are marked-to-market with the result reflected in earnings. In 2007, negative trading-related revenue (net losses) was recorded for 27 days out of 163 trading days. Of the 27 days on which negative revenue (net losses) was recorded, only 1 day was greater than US$ 2,000 (Rs. 218,000).

LIQUIDITY RISK

Inability to meet current and future financial obligations in time triggers liquidity risk. The task of managing liquidity and liquidity risk and ensuring bank solvency at all times is vested in the Asset & Liability Management Unit. The unit analyses a number of factors in evaluating liquidity such as potential sources of funds, historical funding requirements, customer liquidity position, earning capacity and asset quality. In addition the Treasury and Finance Divisions together have the task of maintaining the relevant statutory reserve requirement and ensuring short-term liquidity.

The Treasury also analyses cash flows by currency and carries out liquidity balancing for different currencies and generates cash flow forecasts. Based on these forecasts, liquid holdings of various currencies are maintained by the Treasury.

MANAGING OPERATIONAL RISKS

Operational risk is part of any business undertaking. It relates to losses resulting from inadequate or failed internal processes, people or systems and external events and includes reputation and franchise risk associated with business practices or market conduct that maybe undertaken by the bank. The operational risk framework carries a system of checks and balances that includes ownership of the risk by the businesses, independent risk management, and oversight by the Audit Committee.

Going forward the Risk and Control Self-Assessment (RCSA) Policy and Operational Risk Policy will become central in managing operational risk. The RCSA Policy provides the overall direction, oversight and lays down a consistent approach to assessing risk and its management across the bank. It also integrates the relevant regulatory requirements including BASEL II. The process will be subject to review by Internal Audit, which in turn reports to the Board.

Under this overall framework each SBU sets its own operational risk procedures, identifies its key operational risks, sets controls to mitigate those risks, and ensures compliance with laws and the regulatory framework. Each SBU then reports on their performance for each year according to this framework.

Steps have already been taken to enhance risk management practices in relation to information security and continuity of business. In this connection the Bank is reviewing, among other things, data protection, entitlement management, and the response to major incidents impacting core systems. An IT Risk Officer will oversee this process.

Implementation of a new Business Continuity Plan under the guidance of CBSL is continuing, A country wide preparedness plan to mitigate business continuity risks by reviewing and testing recovery procedures will also be instituted from time to time. In addition to these procedures the Treasury maintains a test contingency facility to support operations in the event of a disaster. A model dealing room will be placed in the disaster recovery site for this purpose.

CAPITAL RESOURCES & LIQUIDITY

Capital Resources

The capital management framework of your bank is designed to ensure it maintains adequate capital resources in relation to its risk profile. Market and public confidence is obtained and retained by such self-regulation and attention to all applicable legislation, regulatory supervision and external rating agency recommendations. The process is subject to continuous review. Capital is generated principally via retained earnings, issuance of stock and subordinated debt and utilised in the main to support the growth of business. Excess capital, alternatively, is used to pay dividends or restructure the business. Capital targets for both the bank and its subsidiaries are set at levels that exceed regulatory standards. A new committee, namely the Finance & Capital Committee (FinCC) consisting of the CFO, Treasurer, DGM Finance, CRO and the Business Heads has been formed to supervise the capital management process. The committee reviews, among others, the following key areas: Financial Structure; Annual Funding Plan; Liquidity; Dividend Payments and Capital Expenditure.

Your bank is subject to risk based capital ratios issued by CBSL. Basically capital adequacy is measured under two risk-based ratios, namely Tier 1 and Total Capital (Tier 1 + Tier 2 Capital). Tier 1 capital is considered core capital while Total Capital includes other items such as subordinated debt and loan loss provisions. Both measures are stated as a percentage of risk adjusted assets, which are measured in terms of their perceived credit risk and include selected off-balance sheet items such as unfunded loan commitments, Letters of Credit and FX contracts.

Regulatory Capital Ratios

The regulatory capital ratios of your bank and their computation are disclosed in some detail below.

In the interest of fuller disclosure on this important aspect, computations covering three years to 2007 are included.

	Balance Sheet Nominal Amount			Risk Weighted Amount		
	2007 Rs. billion	2006 Rs. billion	2005 Rs. billion	**2007 Rs. billion**	2006 Rs. billion	2005 Rs. billion
Balance sheet assets (net of provisions)						
Cash & other zero rated securities	**100.9**	103.4	88.8	**–**	–	–
Due from other banks	**23.6**	26.9	39.7	**4.7**	5.4	7.9
Loans and advances to customers	**286.1**	225.9	167.1	**110.9**	75.0	53.5
Dealing & Investment Securities	**7.0**	6.0	6.8	**7.0**	6.0	6.8
Cash item in process of collection	**5.9**	4.5	8.2	**1.2**	0.9	1.6
Property, plant & equipment	**5.4**	5.5	5.2	**5.4**	5.5	5.2
Other assets	**7.9**	5.0	2.3	**7.9**	5.0	2.4
Total assets*	**436.8**	377.2	318.2	**137.1**	97.8	77.6
Off-balance sheet positions						
Direct credit substitutes	**87.4**	58.1	52.9	**22.8**	40.6	46.5
Self-liquidating trade related contingencies	**21.0**	14.4	9.6	**14.2**	3.8	2.4
Foreign exchange and interest rate contracts	**21.0**	23.4	10.7	**0.4**	0.5	0.2
	129.4	95.9	73.2	**37.5**	44.9	49.1
Total Credit Risk	**–**	–	–	**174.5**	142.7	126.7
Total Market Risk	**–**	–	–	**0.9**	0.7	–

Capital Ratios		Bank			Bank		CBSL norm
	2007 Rs. billion	2006 Rs. billion	2005 Rs. billion	**2007 %**	2006 %	2005 %	%
Tier 1 Capital	**20.92**	17.78	16.05	**11.38**	11.90	12.67	5
Tier 1 + Tier 2 Capital	**20.94**	18.38	16.71	**11.40**	12.30	13.18	10

** The investments that have been deducted from the capital base are not included.*

The table shows that total assets increased from Rs. 377 billion in 2006 to Rs. 437 billion in 2007, an increase of 16% during 2007. In comparison total risk weighted assets increased from Rs. 98 billion in 2006 to Rs. 137 billion in 2007, an increase of 40% during 2007. In the main the significant increase in Loans and Advances during 2007 contributed to the increase in risk weighted assets. While total risk weighted assets increased by 40% in 2007, Total Capital expanded by only 14% i.e. from Rs. 18.4 billion in 2006 to Rs. 20.9 billion in 2007. Such uneven expansion between risk weighted assets and capital led to the erosion in the CAR from 12.3% in 2006 to 11.4% in 2007. Strategies to moderate asset growth as well as generate and retain capital are afoot to restore CAR to historical levels within a short time frame.

Regulatory Capital

Your bank supports the move to the new risk-based regulatory structure to ensure that the international banking system is sufficiently capitalised. Established in 1988 (first published in June 2004 and revised in November 2005), it was formulated by a committee of central bankers in conjunction with the Bank for International Settlements in BASEL, Switzerland and has since become known as the BASEL Capital Accord.

BASEL II can be treated as an update to the original Accord. It is designed to be more flexible and risk sensitive than its predecessor. The Accord provides a set of regulations that will alter significantly the way that banks are capitalised. Fifteen years ago, a commercial bank's major risk was its loan portfolio. Today, as a result of innovative financial instruments such as securitisation, derivatives, etc. and extensive trading in them, capital is exposed to not only credit risk but also interest, market and operational risk. On the implementation of BASEL II, operational risk will feature directly in the assessment of capital adequacy for the first time.

In time BASEL II will permit us to take advantage of internal rating methodologies to measure credit, market and operational risk in arriving at regulatory capital computations. The current Sri Lanka implementation timetable consists of calculating the regulatory capital under BASEL II, commencing January 2008 and implementing a transition period for advanced approach commencing January 2009 through to 2011. Irrespective of these changing dates, your bank will monitor and analyse developments, particularly in the US and the UK, as regards regulatory capital allocation and evaluate their collective impact.

Liquidity

Managing the liquidity of your bank is a key responsibility of the Treasury. Given the controlled access to the CBSL window, close management of funding and liquidity is now a fundamental necessity. Under a liquidity risk management policy, there is a single set of standards for the measurement of liquidity risk that ensures stability in methodology and transparency of risk. Liquidity is managed and monitored on a daily basis with the ALCO playing a role. The starting place for managing liquidity is the annual strategic funding and liquidity plan. The plan includes an analysis of the balance sheet together with economic and business conditions. It sets out liquidity limits, liquidity ratios, market triggers and criteria for periodic stress tests.

Liquidity limits establish boundaries for market access in business-as-usual conditions and are monitored against the liquidity position on a daily basis. These limits are based on balance sheet size, market depth, stability of liabilities and liquidity of the assets. The results from stress test are also considered in setting the limit. The general strategic intention is to set limits that enable self-funding or provide liquidity to the market.

A series of standard liquidity ratios is in the process of further development to monitor the structural elements of liquidity. These include core deposits to loans, long-term liabilities to long-term assets, cash capital (defined as core deposits, long-term debt and capital compared to illiquid assets) and liquid assets versus liquidity gaps. Potential concentration of funding by name, product, industry and geography is also monitored. Among the stress test criteria will be included changes in key funding sources, credit ratings, political and economic events. The final outcome is to arrive at alternatives that contain policies, processes, roles and responsibilities and an action plan that can be used depending on the contingent liquidity event.

Provided below are the year-end Liquidity Ratios as reported to CBSL since 2003:

Year-end	**2007**	2006	2005	2004	2003
Liquidity Ratio	**21.2%**	22.2%	22.9%	23.8%	25.3%

Financial Reports

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

This Statement by the Board of Directors is made especially to distinguish the respective responsibilities of the Directors and Auditors in relation to the Financial Statements.

FINANCIAL STATEMENTS

In terms of the provisions of Bank of Ceylon Ordinance (Chapter 397) and its amendments read with the Banking Act No. 30 of 1988 and its amendments, the Directors of the Bank are responsible for ensuring that the Bank maintains proper books of accounts and prepares Financial Statements for each financial year giving a true and fair view of the state of affairs of the Bank.

The Directors regard that in preparing the Financial Statements for the year 2007 presented in this Annual Report, the most appropriate accounting policies have been used and applied consistently supported by judgements and estimates that are reasonable and prudent.

The Directors are responsible for ensuring proper accounting records are kept, which disclose with reasonable accuracy at any time the financial position of the Bank and ensure that proper Financial Statements are prepared.

The Financial Statements for the year 2007 presented in this Annual Report are in conformity with the requirements of the Banking Act No. 30 of 1988 and the Sri Lanka Accounting Standards, and they reflect a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2007.

GOING CONCERN

The Directors are of the view that the Bank and the Group have adequate resources to continue in business for the foreseeable future. Accordingly they have continued to adopt the going concern basis in preparing the Financial Statements.

INTERNAL CONTROLS, RISK MANAGEMENT AND COMPLIANCE

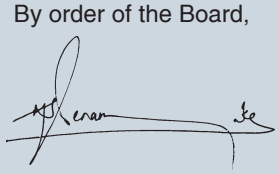
They are also responsible for the system of internal financial control and place considerable importance on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement. Whilst inherent and residual risks cannot be fully eliminated, the Bank endeavours to minimise them by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and practiced within predetermined procedures and constraints.

The Audit Committee on an ongoing basis has acted in strengthening the effectiveness of internal controls. The Committee also ensures that the Bank comply with all relevant laws and regulations. The Report of the Audit Committee is attached to this Annual Report.

AUDIT REPORT

Pursuant to provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the Auditor of the Bank and issues the Final Opinion and Report of Audit. For the year 2007, in completing the audit, M/s. BDO Burah Hathy, Chartered Accountants, assisted the Auditor General covering a material amount of assets and liabilities of the Bank. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on page 71 of this Annual Report.

By order of the Board,



Janaki Senanayake Siriwardane
Secretary, Bank of Ceylon/Secretary to the Board.
18 March 2008
Colombo

DIRECTORS' REPORT

The Directors of the Bank of Ceylon have pleasure in presenting their report together with the audited Financial Statements for the year ended 31 December 2007. The Directors approved the Financial Statements on 18 March 2008.

Principal Activities

Bank

The principal activities of the Bank during the year were general banking, development financing, mortgage financing, lease financing, investment banking, corporate financing, dealing in Government securities, pawn broking, credit card facilities, offshore banking, foreign currency operations and other financial services.

Subsidiaries

The principal activities of subsidiaries are given in Note 25 to the Financial Statements.

Associates

The principal activities of associates are given in Note 24 to the Financial Statements.

There were no significant changes in the nature of the principal activities of the Bank and the Group during the year under review.

Review of the Year's Performance

The Chairman's Message on pages 4 to 6 deals with the year's performance of the Bank/Group and on the Sri Lanka economy. The General Manager's Review on pages 7 to 9 provides a detailed description of the operations of the Bank during the year under review.

Branch Expansion and Future Developments

Two new branches in Kottawa and Angunakolapelessa were opened, bringing the total number of branches to 307. The Bank has connected 367 on-line access points including 295 branches and 72 extension offices to the International Comprehensive Banking System (ICBS) on-line network by the end of the year 2007. The ATM Network was further expanded during the year, enhancing customer convenience. The Bank itself has installed 203 ATMs across the Island, bringing out total ATMs to 353 under the Lanka Electronic Access Point (LEAP) system where ATMs of Sampath Bank can also be used by the customers of Bank of Ceylon.

Internal Control

The Board of Directors have instituted and implemented an effective and comprehensive system of internal controls in the Bank. Internal control systems have been redesigned to meet the particular needs of the Bank and the risks to which it is exposed, and to provide reasonable but not absolute assurance against material misstatements or loss. The Bank's internal control systems have been designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are authorised and properly recorded and material errors and irregularities are either prevented or detected within a reasonable period of time. The Directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems are effective.

Corporate Governance

The main Corporate Governance practices of the Bank are given on pages 54 to 56 of this Report.

Human Resources

One of the most valuable assets of the Bank is its employees and it is important for the Bank to develop them. Several measures were taken to further consolidate the much valued human capital of the Bank. The Bank's Human Resource Management policies and practices are detailed under 'Engaged and Empowered Employees' on pages 42 to 43.

Audit Committee

The Audit Committee helps the Board of Directors to discharge their fiduciary responsibilities. The report of the Chairman, Audit Committee is contained on page 70 of this Report.

Vision, Mission, Corporate Conduct

The Bank's Vision and Mission are given on page 1 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under 'Vision' and 'Mission'.

Risk Management

Risk Management is a well established management function at Bank of Ceylon. Specific measures taken by the Bank in managing risks are detailed on pages 59 to 64 of this Report.

Gross Income

The main income of the Group is interest income, which comprises over 84% of the total income. The gross income of the Group for the year 2007 was Rs. 52,318 million as against Rs. 37,245 million when compared with the previous year. The Bank's total income accounted for 96% (2006 - 94%) of total income of the Group.

Profit

The Bank recorded a healthy pre-tax profit of Rs. 4,518 million in 2007 reflecting a growth of 9% when compared with Rs. 4,138 million recorded for the previous year, whilst the pre-tax profit of the Group increased from Rs. 4,723 million to Rs. 5,179 million, an increase of 10% over the previous year.

Details of profit relating to the Bank are given in Table 1.

Table 1

	2007 Rs. '000	2006 Rs. '000
Profit for the year after payment of all expenses and providing for depreciation,possible loan losses and contingencies before VAT & Tax	**6,391,026**	5,904,197
VAT on financial services	**(1,872,559)**	(1,766,607)
Profit before income tax	**4,518,467**	4,137,590
Provision for taxation	**(1,675,210)**	(1,510,468)
Net profit after taxation	**2,843,257**	2,627,122
Unappropriated profit brought from previous year	**10,298,235**	9,475,048
Profit available for appropriation	**13,141,492**	12,102,170
Appropriations		
Transfers to permanent reserve fund	**60,000**	540,000
Transfers to primary dealer risk reserve	**74,450**	66,530
Transfers to investment fluctuation reserve	**–**	24,225
Dividends	**846,410**	1,173,180
Unappropriated profit to be carried forward	**12,160,632**	10,298,235

Dividends

All profits after deduction of tax, loan loss provision and any such portion for reserves, if any, as the Government shall determine, will be issued as dividends to the Government. Accordingly, a sum of Rs. 846 million has been paid by the Bank as dividends for the year. (2006 - Rs.1,173 million)

Provision for Taxation

Income tax for the year 2007 has been computed at the rates given in Note 12.1 to the Financial Statements. Under the provisions of the Inland Revenue Act No. 10 of 2006, the tax loss brought forward will be set-off against the current year's tax liability only to the extent of a maximum limit of 35% of the total statutory income of the year under review.

The deferred tax assets arising on the general provisions exceed the temporary difference on accelerated capital allowances on property, plant & equipment and assets leased to customers. There is no liability for deferred tax at the Balance Sheet date, as explained in Notes 12 and 27 to the Financial Statements.

Corporate Social Responsibility

The CSR programmes undertaken are detailed under the Corporate Sustainability & Responsibility (CS & R) Report on pages 38 to 47. All such programmes are within the CS & R policy framework discussed elsewhere in the Annual Report.

Issue of Debentures

The debentures issued by the Group as at 31 December 2007 were Rs.10,576 million (2006 - Rs.5,299 million). The details of the debentures outstanding as at the date of Balance Sheet are given in the Notes 32 and 36 to the Financial Statements.

Property, Plant & Equipment

The total capital expenditure incurred by the Group on the acquisition of property, plant & equipment during the year amounted to Rs. 708 million (2006 - Rs. 777 million) the details of which are given in Note 29 to Financial Statements on page 106 of the Annual Report.

Market Value of Freehold Properties

The value of freehold properties owned by the Group as at 31 December 2007 is included in Note 29 to Financial Statements at Rs. 4,278 million (2006 - Rs. 4,293 million).

Reserves

The total reserves of the Group stood at Rs. 17,561 million as at 31 December 2007 (2006 - Rs. 15,023 million). The changes in reserves are given in Notes 38 and 39 to the Financial Statements.

Stated Capital

The total issued and fully paid up capital of the Bank as at 31 December 2007 was Rs. 4,000 million consisting of 4,000,000 ordinary shares of Rs.1,000 each. Further, a sum of Rs.1,000 million received during the year 2007, from the Government of Sri Lanka has been accounted for as capital pending allotment.

Share Information

The earnings per share and net assets per share of the Group were Rs. 810.96 and Rs. 5,640.27 respectively, for the period under review.

Shareholding
The Government of Sri Lanka is the sole shareholder of Bank of Ceylon.

Directors
The Board of Directors of Bank of Ceylon as at the date of the Report consists of six members including the Chairman and they do not hold any executive positions in the Bank. They bring a wide range of skills and experience to the Board. The qualifications and experience of the present Directors are given on pages 10 to 11.

The Directors of the Bank are:
Dr. Gamini Wickramasinghe *(Chairman) - Appointed w.e.f. 23 May 2007.*
Mr. Sumith Abeysinghe
Mr. Chaminda Kumara Kularatne
Mr. Gunaratna Gallage
Mr. Raju Sivaraman
Dr. Buddhadasa Kaluarachchi
Mr. V. Kanagasabapathy - *Appointed w.e.f. 1 March 2006 as an Alternate Director to Mr. Sumith Abeysinghe, the ex officio Director.*

Resignations
Mr. Udayasri Kariyawasam resigned from the Board and Chairmanship w.e.f. 22 May 2007.
Mr. C K Kularatne, Mr. G Gallage, Mr. R Sivaraman and Dr. B Kaluarachchi, Directors resigned from the Board w.e.f. 22 May 2007 and were reappointed on 13 June 2007.

Directors' Responsibilities for Financial Statements
The Directors are of the view that Financial Statements that have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments give a true and fair view of the state of its affairs. Statement on page 66 of the Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements.

Directors' Interests in Contracts
Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 45 to the Financial Statements. These interests have been declared at meetings of the Board of Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

Directors' Allowances/Fees
The allowances/fees payable to Board of Directors are made in terms of the provisions in the Public Enterprises Circular No. PED 04 dated 1 January 2003 and PF/PE/21 dated 24 May 2002 issued by the Department of Public Enterprises of the General Treasury.

Compliance with Laws and Regulations
The Bank/Group has not engaged in any activities contravening the laws and regulations. All those responsible for ensuring compliance with the applicable laws and regulations confirm their compliance to the Board, monthly.

Environmental Protection
The Bank/Group has not engaged in any activity, which has caused detriment to the environment.

Statutory Payments
The Board is confident that all statutory payments due to the Government and in relation to employees have been made on time.

Post Balance Sheet Events
In the opinion of the Directors, no material event of an unusual nature has arisen in the interval between the end of the financial year and the date of this Report, which would affect substantially the results of the operations of the Group for the financial year in respect of which the Report is prepared. Note 43 to the Financial Statements carries no such material events.

Going Concern
The Directors are confident that the Bank has adequate resources to continue in operation. It has applied the going concern basis in preparing the Financial Statements.

Appointment of Auditors
The Auditor General is the Auditor of Bank of Ceylon. He has been appointed in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

By Order of the Board,

Janaki Senanayake Siriwardane
Secretary, Bank of Ceylon/Secretary to the Board
18 March 2008
Colombo

AUDIT COMMITTEE REPORT

The Audit Committee is responsible for overseeing financial reporting, risk management, internal controls, compliance, ethics, management and internal audit. It is also responsible for maintaining an appropriate relationship with the external auditors.

The Board of Directors of Bank of Ceylon recognised the importance of their oversight responsibilities covering risk management. Also special emphasis was placed on ensuring compliance with all applicable legislation and regulation as a responsible corporate citizen. With a view to fulfilling these obligations during the year under review, the Audit Committee was reconstituted as the 'Audit, Compliance and Risk Management Committee'.

In order to comply with the directives of the Central Bank of Sri Lanka on Corporate Governance which came into effect from 1 January 2008, two separate committees have now been established. Accordingly there is now an Audit Committee and an Integrated Risk Management Committee.

ROLE OF THE COMMITTEE

The main role of the Committee is to assist the Board in its oversight responsibility. In fulfilling it, the Committee, among others, becomes responsible for the following:

- Reviewing and monitoring the adequacy and effectiveness of the Bank's internal controls, risk management systems and internal audit function.
- Reviewing the annual Financial Statements to ensure compliance with accounting standards, regulations and generally accepted accounting principles.
- Monitoring and reviewing the Bank's statutory and regulatory compliance process.
- Reviewing management letters of external auditors and subsequent compliance with corrective action plans.
- Reviewing the scope of activities of the internal audit function, ensuring its independence and that no unjustified restrictions or limitations are made and it is performed with impartiality, proficiency and due professional care.

THE COMPOSITION OF THE COMMITTEE

The members of the Audit Committee up to May 2007 were as follows:

- Mr. R Sivaraman - *Chairman*
- Mr. C K Kularatne
- Mr. G Gallage
- Dr. B Kaluarachchi

From July 2007, the Audit Committee which was reconstituted as Audit, Compliance and Risk Management Committee comprised the following members:

- Mr. S Abeysinghe - *Chairman*
  Mr. V Kanagasabapathy, the Alternate Director to Mr. S Abeysinghe on the Board chaired the meetings in the absence of Mr. S Abeysinghe, as approved by the Board.
- Mr. R Sivaraman
- Mr. C K Kularatne
- Mr. G Gallage
- Dr. B Kaluarachchi

All the above members were Non-Executive Directors.

The Secretary of the Bank/Secretary to the Board functioned as the Secretary to the Committee to assist the Committee in fulfilling its role. The General Manager, the Chief Financial Officer, Deputy General Manager (Inspection & Audit) and the Internal Auditor attended the meetings by invitation. The other members of the Corporate Management, the external auditors, the representatives of the Auditor General's Department and other staff members of the Bank were invited to attend the meetings when the Committee required their presence.

External Auditors have a standing invitation to attend all Audit Committee meetings as per a recent decision of the Committee.

MEETINGS AND ACTIVITIES

The Committee met six times during the year under review and carried out the following activities:

- Reviewed the Internal Audit Plan for the year 2007 along with the new risk based auditing system.
- Adopted a system of audit reviews for all credit facilities subject to a limit.
- Reviewed the Auditor-General's draft report to the Parliament of Sri Lanka on the accounts of the Bank for the year ended 31 December 2006 and the Management's responses thereto.
- Reviewed the Management Letter issued by the Auditor General, Management responses thereto and corrective measures taken by the Bank, to avoid recurrence of the issues raised.
- Reviewed the quarterly Financial Statements of the Bank, prepared on the basis of statutory requirements, firstly to evaluate performance and secondly for the purposes of publication.
- Reviewed significant internal audit findings with a view to taking timely corrective action.
- Reviewed the adequacy of compliance function of the Bank.
- Arranged to conduct awareness programmes on the internal audit function emphasising that it is not a fault-finding mission but a very useful consultancy service.
- Recommended merger of the Internal Audit and Inspection & Audit Departments to strengthen the independence of the combined unit by reporting directly to the Audit Committee and effectiveness by utilising available resources efficiently, effective January 2008.
- Maintained minutes and obtained concurrence of the Board for decisions taken/recommendations made by the Committee.

PROCEDURE FOR COMPLAINTS

The Audit Committee has established a procedure for the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal controls and auditing matters. This procedure was in operation during the year under review.

SUPPORT TO THE COMMITTEE

The Committee received information and support from Management during the year to enable it to carry out its duties and responsibilities effectively.

CONCLUSION

The Audit Committee is of the view that necessary 'check & balances' are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position and the results disclosed in the audited accounts are free from any material misstatements.

V Kanagasabapathy
as Alternate to Mr. S Abeysinghe
Chairman, Audit Committee
18 March 2008
Colombo

REPORT OF THE AUDITOR GENERAL

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல / My No. } EF/F/BC/2007

ඔබේ අංකය / உமது இல / Your No. }

දිනය / திகதி / Date } 28 March 2008

The audit of the accompanying Financial Statements of Bank of Ceylon, and the Consolidated Financial Statements of the Bank, and its Subsidiaries as at 31 December 2007, which comprise the Balance Sheet as at that date, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant Accounting Policies and other explanatory notes thereto (Nos. 1 to 47) to the Financial Statements was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. The Financial Statements of the Subsidiaries were audited by firms of Chartered Accountants in public practice appointed by the members of the respective Subsidiaries.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for preparation and fair presentation of these Financial Statements in accordance with the Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

SCOPE OF AUDIT AND BASIS OF OPINION

My responsibility is to express an opinion on these Financial Statements based on my audit. The audit was conducted in accordance with Sri Lanka Auditing Standards, which require that the audit shall be planned and performed to obtain reasonable assurance as to whether the Financial Statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of Financial Statements. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion.

OPINION

In my opinion, so far as appears from my examination, the Bank had maintained proper accounting records for the year ended 31 December 2007, and the Financial Statements give a true and fair view of the Bank's state of affairs as at 31 December 2007 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In my opinion, the Consolidated Financial Statements, give a true and fair view of the state of affairs as at 31 December 2007 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its Subsidiaries dealt with thereby, so far as concerns the shareholders of the Bank.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

These Financial Statements had been presented the information required by the Banking Act No. 30 of 1988.

EXEMPTION

The Bank has been exempted from provisions in Part II of the Finance Act No. 38 of 1971 by an Order of the Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Section (I) of the said Finance Act.

REPORT TO PARLIAMENT

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

S. Swarnajothi
Auditor General

නිදහස් චතුරශ්‍රය, කොළඹ 07, ශ්‍රී ලංකාව
சுதந்திர சதுக்கம், கொழும்பு 07, இலங்கை
INDEPENDENCE SQUARE, COLOMBO 07, SRI LANKA

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INCOME STATEMENT

For the year ended 31 December	Note	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
Income	1	**50,159,521**	35,192,065	**52,317,971**	37,245,407
Interest income	2	**42,285,788**	26,823,214	**44,083,422**	28,219,190
Interest expense	3	**(29,453,085)**	(15,743,682)	**(30,352,995)**	(16,355,202)
Net interest income		**12,832,703**	11,079,532	**13,730,427**	11,863,988
Fee and commission income		**3,098,848**	2,196,456	**3,123,101**	2,215,632
Fee and commission expenses		**(528,027)**	(406,245)	**(528,027)**	(406,245)
Net fee and commission income		**2,570,821**	1,790,211	**2,595,074**	1,809,387
Foreign exchange profit		**1,178,696**	2,261,431	**1,178,696**	2,261,431
Dividend income	4	**424,805**	451,913	**250,106**	306,195
Net gains from investment securities		**1,199,121**	918,437	**1,208,591**	969,582
Other operating income	5	**686,620**	755,413	**1,105,413**	1,474,677
Operating income		**18,892,766**	17,256,937	**20,068,307**	18,685,260
Personnel costs	6	**(6,573,654)**	(6,193,000)	**(6,832,668)**	(6,429,639)
Staff retirement benefits	7	**(2,195,203)**	(2,405,682)	**(2,201,576)**	(2,450,206)
Premises, equipment & establishment expenses	8	**(1,927,862)**	(1,724,004)	**(2,130,462)**	(1,894,464)
Amortisation of intangible assets	8	**(194,762)**	(136,682)	**(195,603)**	(138,057)
Other operating expenses	8	**(1,685,266)**	(1,309,215)	**(1,691,797)**	(1,616,859)
Operating profit before provisions		**6,316,019**	5,488,354	**7,016,201**	6,156,035
Provision for loan losses	9	**(1,171,236)**	(1,369,358)	**(1,275,128)**	(1,464,614)
Recovery of non-performing advances		**1,285,643**	1,785,201	**1,294,013**	1,794,728
Provision for fall in value of investments & dealing securities	10	**(39,400)**	–	**(14,800)**	(185)
Operating profit		**6,391,026**	5,904,197	**7,020,286**	6,485,964
Share of profit of associate companies after tax	11	**–**	–	**74,629**	3,972
Profit before value added tax and income tax		**6,391,026**	5,904,197	**7,094,915**	6,489,936
Value added tax on financial services		**(1,872,559)**	(1,766,607)	**(1,915,924)**	(1,766,607)
Profit before income tax		**4,518,467**	4,137,590	**5,178,991**	4,723,329
Provision for taxation	12	**(1,675,210)**	(1,510,468)	**(1,845,033)**	(1,693,127)
Net profit for the year		**2,843,257**	2,627,122	**3,333,958**	3,030,202
Attributable to:					
Shareholder				**3,243,831**	2,945,076
Minority interest				**90,127**	85,126
Net profit for the year				**3,333,958**	3,030,202
Basic earnings per share (Rs.)	13	**710.81**	656.78	**810.96**	736.27
Diluted earnings per share (Rs.)	13	**710.81**	656.78	**810.96**	736.27

The significant accounting policies on pages 77 to 83 and notes on pages 84 to 125 form an integral part of these Financial Statements.

BALANCE SHEET

As at 31 December	Note	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
ASSETS					
Cash and short-term funds	15	**9,244,542**	7,789,997	**9,311,000**	7,827,505
Balances with Central Banks	16	**17,253,101**	17,105,996	**17,253,101**	17,105,996
Treasury bills, bonds and other eligible bills	17	**39,205,480**	45,808,190	**39,705,548**	46,947,206
Dealing securities	18	**3,184,335**	1,180,431	**3,249,603**	1,254,264
Placement with and loans to other banks	19	**19,721,881**	23,735,324	**19,721,881**	23,735,324
Loans & advances to customers					
Bills of exchange	20.1	**11,131,228**	4,229,348	**11,462,481**	4,229,804
Loans & advances	20.2	**265,407,006**	217,017,344	**265,998,412**	217,852,607
Lease rentals receivable - within one year	20.3	**769,718**	63,310	**4,138,291**	1,625,489
Lease rentals receivable - one to five years	20.4	**5,055,547**	1,896,290	**8,030,472**	6,342,675
Lease rentals receivable - after five years	20.5	**83,297**	31,151	**93,496**	31,920
		282,446,796	223,237,443	**289,723,152**	230,082,495
Treasury bonds maturing after one year		**27,336,550**	24,263,249	**27,336,550**	24,263,249
Government of Sri Lanka restructuring bonds	21	**8,547,000**	8,547,000	**8,547,000**	8,547,000
Investment securities	22	**2,361,502**	2,379,977	**2,574,836**	2,598,519
Investment properties	23	**558,660**	1,087,624	**1,021,497**	1,087,624
Investments in associate companies	24	**819,640**	792,480	**933,755**	831,916
Investments in subsidiary companies	25	**2,830,854**	2,919,454	**–**	–
Other assets	26	**16,682,419**	11,927,485	**17,245,856**	12,472,478
Deferred tax assets	27	**59,706**	236,433	**–**	162,288
Group balances receivable	28	**2,267,433**	1,723,943	**688,307**	609,485
Property, plant & equipment	29	**5,126,788**	5,143,931	**6,621,816**	6,565,201
Intangible assets	30	**254,663**	419,810	**265,163**	420,778
Total assets		**437,901,350**	378,298,767	**444,199,065**	384,511,328
FINANCED BY :					
LIABILITIES					
Deposits from customers	31	**308,667,366**	262,676,437	**310,480,696**	264,819,386
Debt securities in issue	32	**54,402,491**	48,247,124	**55,828,751**	49,696,474
Other borrowed funds	33	**36,069,330**	34,058,604	**37,795,089**	34,679,377
Group balances payable	34	**1,146,582**	313,278	**70,451**	76,081
Deferred tax liability	27	**–**	–	**26,557**	–
Tax payable		**885,441**	726,607	**960,609**	778,529
Other liabilities	35	**13,229,971**	11,714,564	**13,430,417**	12,248,074
Subordinated debentures	36	**2,450,000**	2,650,000	**2,450,000**	2,650,000
Total liabilities		**416,851,181**	360,386,614	**421,042,570**	364,947,921
EQUITY					
Stated capital	37	**5,000,000**	4,000,000	**5,000,000**	4,000,000
Permanent reserve fund	38	**2,515,000**	2,455,000	**2,515,000**	2,455,000
Retained profits		**12,160,632**	10,298,235	**13,396,498**	11,133,527
Reserves	39	**1,374,537**	1,158,918	**1,649,593**	1,433,974
Total equity attributable to the parent		**21,050,169**	17,912,153	**22,561,091**	19,022,501
Minority interest		**–**	–	**595,404**	540,906
Total equity		**21,050,169**	17,912,153	**23,156,495**	19,563,407
Total equity and liabilities		**437,901,350**	378,298,767	**444,199,065**	384,511,328
Commitments and contingencies	40	**134,712,838**	105,502,265	**134,752,038**	105,539,740

The significant accounting policies on pages 77 to 83 and notes on pages 84 to 125 form an integral part of these Financial Statements.

Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs as at 31 December 2007 and its profit for the year ended 31 December 2007.

S. Rajakaruna
Chief Financial Officer

Approved and signed for and on behalf of the Board by,

Dr. Gamini Wickramasinghe
Chairman

R. Sivaraman
Director

B A C Fernando
General Manager

18 March 2008
Colombo

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

Bank	Stated Capital: Share capital Rs. '000	Stated Capital: Capital pending allotment Rs. '000	Reserves: Permanent reserve fund Rs. '000	Reserves: Other reserves Rs. '000	Reserves: Revaluation reserves Rs. '000	Retained profits Rs. '000	Total equity Rs. '000
Balance at 1 January 2006 as previously reported	4,000,000	–	1,915,000	829,892	129,404	9,308,256	16,182,552
Effects on adoption of revised SLAS	–	–	–	1,698	–	166,792	168,490
As restated	**4,000,000**	**–**	**1,915,000**	**831,590**	**129,404**	**9,475,048**	**16,351,042**
Net profit for the year 2006	–	–	–	–	–	2,627,122	2,627,122
Transfers to permanent reserve [Note 38]	–	–	540,000	–	–	(540,000)	–
Transfers to primary dealer risk reserve [Note 39.2 (c)]	–	–	–	66,530	–	(66,530)	–
Transfers to investment fluctuation reserve [Note 39.2 (d)]	–	–	–	24,225	–	(24,225)	–
Dividends for 2006 [Note 14]	–	–	–	–	–	(1,173,180)	(1,173,180)
Net exchange translation adjustment [Note 39.2 (b)]	–	–	–	107,169	–	–	107,169
Balance at 31 December 2006	**4,000,000**	**–**	**2,455,000**	**1,029,514**	**129,404**	**10,298,235**	**17,912,153**
Balance at 1 January 2007	4,000,000	–	2,455,000	1,029,514	129,404	10,298,235	17,912,153
Net profit for the year 2007	–	–	–	–	–	2,843,257	2,843,257
Transfers to permanent reserve [Note 38]	–	–	60,000	–	–	(60,000)	–
Transfers to primary dealer risk reserve [Note 39.2 (c)]	–	–	–	74,450	–	(74,450)	–
Dividends for 2007 [Note 14]	–	–	–	–	–	(846,410)	(846,410)
Net exchange translation adjustment [Note 39.2 (b)]	–	–	–	141,169	–	–	141,169
Shares under pending allotment	–	1,000,000	–	–	–	–	1,000,000
Balance at 31 December 2007	**4,000,000**	**1,000,000**	**2,515,000**	**1,245,133**	**129,404**	**12,160,632**	**21,050,169**

Group	Attributable to the shareholder: Stated Capital: Share capital Rs. '000	Stated Capital: Capital pending allotment Rs. '000	Reserves: Permanent reserve fund Rs. '000	Reserves: Other reserves Rs. '000	Reserves: Revaluation reserves Rs. '000	Retained profits Rs. '000	Minority interest Rs. '000	Total equity Rs. '000
Balance at 1 January 2006 as previously reported	4,000,000	–	1,915,000	1,027,469	182,797	9,349,347	486,330	16,960,943
Effects on adoption of revised SLAS	–	–	–	1,698	–	666,026	–	667,724
As restated	**4,000,000**	**–**	**1,915,000**	**1,029,167**	**182,797**	**10,015,373**	**486,330**	**17,628,667**
Net profit for the year 2006	–	–	–	–	–	2,945,076	85,126	3,030,202
Transfers to permanent reserve [Note 38]	–	–	540,000	–	–	(540,000)	–	–
Transfers to primary dealer risk reserve [Note 39.2 (c)]	–	–	–	66,530	–	(66,530)	–	–
Transfers to investment fluctuation reserve [Note 39.2 (d)]	–	–	–	24,225	–	(24,225)	–	–
Dividends for 2006 [Note 14]	–	–	–	–	–	(1,173,180)	(30,550)	(1,203,730)
Net exchange translation adjustment [Note 39.2 (b)]	–	–	–	107,169	–	–	–	107,169
Transfer to other reserves	–	–	–	24,086	–	(24,086)	–	–
Change in shareholding	–	–	–	–	–	1,099	–	1,099
Balance at 31 December 2006	**4,000,000**	**–**	**2,455,000**	**1,251,177**	**182,797**	**11,133,527**	**540,906**	**19,563,407**
Balance at 1 January 2007	4,000,000	–	2,455,000	1,251,177	182,797	11,133,527	540,906	19,563,407
Net profit for the year 2007	–	–	–	–	–	3,243,831	90,127	3,333,958
Transfers to permanent reserve [Note 38]	–	–	60,000	–	–	(60,000)	–	–
Transfers to primary dealer risk reserve [Note 39.2 (c)]	–	–	–	74,450	–	(74,450)	–	–
Dividends for 2007 [Note 14]	–	–	–	–	–	(846,410)	(35,629)	(882,039)
Net exchange translation adjustment [Note 39.2 (b)]	–	–	–	141,169	–	–	–	141,169
Shares under pending allotment	–	1,000,000	–	–	–	–	–	1,000,000
Balance at 31 December 2007	**4,000,000**	**1,000,000**	**2,515,000**	**1,466,796**	**182,797**	**13,396,498**	**595,404**	**23,156,495**

The significant accounting policies on pages 77 to 83 and notes on pages 84 to 125 form an integral part of these Financial Statements.

CASH FLOW STATEMENT

For the year ended 31 December	Note	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
Cash flows from operating activities					
Interest receipts		**40,856,329**	25,949,718	**42,562,986**	27,366,854
Interest payments		**(29,289,572)**	(12,156,125)	**(30,712,765)**	(12,677,145)
Other operating income		**3,843,188**	2,925,036	**5,381,209**	3,663,479
Non-performing advances recovered		**1,285,645**	1,785,201	**1,294,013**	1,794,728
Cash payments to employees and suppliers		**(13,650,928)**	(12,558,877)	**(14,802,352)**	(13,199,092)
Cash flows from operating profits before changes in operating assets and liabilities	I	**3,044,662**	5,944,953	**3,723,091**	6,948,824
(Increase)/decrease in operating assets					
Deposits held for regulatory or monetary control purposes		**(147,105)**	(3,173,298)	**(147,105)**	(3,173,298)
Funds advanced to customers		**(61,023,666)**	(59,764,831)	**(61,557,033)**	(60,580,898)
Credit card receivable		**(215,497)**	(112,619)	**(215,497)**	(112,619)
Short-term marketable securities		**(145,321)**	246,142	**(147,117)**	184,253
Other assets		**(1,500,378)**	3,782,058	**(1,098,002)**	3,966,295
Increase/(decrease) in operating liabilities					
Deposits from other banks		**51,990**	1,827	**51,990**	1,827
Deposits from customers		**45,938,939**	30,162,761	**45,603,691**	30,446,110
Other liabilities		**1,187,878**	(702,280)	**(579,163)**	(1,092,463)
Net cash from/(used in) operating activities before income tax		**(12,808,498)**	(23,615,287)	**(14,365,145)**	(23,411,969)
Income tax paid		**(904,125)**	(585,197)	**(1,151,897)**	(836,276)
Net cash from/(used in) operating activities		**(13,712,623)**	(24,200,484)	**(15,517,042)**	(24,248,245)
Cash flows from investing activities					
Net increase in treasury bills and other eligible bills		**12,143,106**	(3,063,917)	**12,640,641**	(2,936,126)
Proceeds from sale of investment & dealing securities		**63,827**	698,382	**66,762**	698,382
Dividend received		**424,805**	451,913	**250,106**	310,644
Proceeds from liquidation of a subsidiary		**–**	788	**–**	–
Purchase of investment securities		**(9,263,129)**	(6,704,933)	**(8,593,837)**	(6,744,207)
Investment in subsidiaries and associates		**22,040**	50,000	**(27,960)**	–
Purchase of property, plant & equipment		**(543,515)**	(912,254)	**(707,559)**	(777,016)
Proceeds from sale of property, plant & equipment including foreclosed properties		**186,909**	481,720	**192,991**	481,720
Net cash from/(used in) investing activities		**3,034,043**	(8,998,301)	**3,821,144**	(8,966,603)

For the year ended 31 December	Note	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
Cash flows from financing activities					
Proceeds from debt securities		**655,366**	20,369,236	**655,366**	20,341,158
Net increase/(decrease) in debentures		**5,300,000**	(3,500,000)	**5,276,910**	(3,631,250)
Net increase/(decrease) in other borrowings		**2,010,726**	6,050,114	**3,115,713**	6,050,114
Dividends paid		**(846,410)**	(1,173,181)	**(846,410)**	(1,173,181)
Issue of shares to the Government		**1,000,000**	–	**1,000,000**	–
Minority interest		**–**	–	**(35,629)**	(30,550)
Net cash from/(used in) financing activities		**8,119,682**	21,746,169	**9,165,950**	21,556,291
Net increase/(decrease) in cash and cash equivalents		**(2,558,898)**	(11,452,616)	**(2,529,948)**	(11,658,557)
Cash and cash equivalents at the beginning of the year		**31,525,321**	42,977,937	**31,562,829**	43,221,386
Cash and cash equivalents at the end of year	II	**28,966,423**	31,525,321	**29,032,881**	31,562,829
Note I					
Reconciliation of operating profit before tax					
Profit before tax		**4,518,467**	4,137,590	**5,178,991**	4,723,329
Add/(less) Net gain from dealing securities		**(2,552,553)**	(105,310)	**(2,619,157)**	(112,862)
Net gain from investment securities		**(473,858)**	(905,133)	**(473,858)**	(771,962)
Net gain/(loss) on mark to market valuation		**1,347,102**	(359,597)	**1,347,102**	(359,597)
Profit on sale of property, plant & equipment		**(109,303)**	(213,055)	**(115,966)**	(213,055)
Provision for investment & dealing income		**39,400**	–	**14,800**	185
Exchange revaluation		**(927,655)**	(2,051,597)	**(927,655)**	(2,051,597)
Share of profit of related companies		**–**	–	**(74,629)**	(3,972)
Depreciation & amortisation		**760,737**	692,713	**853,647**	780,686
Loan loss provision		**1,171,236**	1,369,358	**1,275,128**	1,466,024
Provision for accrued interest		**(713,040)**	3,459,548	**(719,441)**	3,571,209
Notional credit on withholding tax		**(3,874)**	(79,564)	**(3,874)**	(79,564)
Provision made/(reversed) on other assets		**(11,997)**	–	**(11,997)**	–
Cash flows from operating profits before changes in operating assets and liabilities		**3,044,662**	5,944,953	**3,723,091**	6,948,824
Note II					
Analysis of cash and cash equivalents					
Cash and short-term funds		**9,244,542**	7,789,997	**9,311,000**	7,827,505
Placement with and loans to other banks		**19,721,881**	23,735,324	**19,721,881**	23,735,324
		28,966,423	31,525,321	**29,032,881**	31,562,829

The significant accounting policies on pages 77 to 83 and notes on pages 84 to 125 form an integral part of these Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL

Bank of Ceylon is a Government corporation established under the Bank of Ceylon Ordinance No. 53 of 1938 domiciled in Sri Lanka. The consolidated Financial Statements of the Bank for the year ended 31 December 2007 comprise the Bank, its subsidiaries and Group's interests in its associate companies.

The Financial Statements were authorised for issue on 18 March 2008.

1.1 Principal Activities

The principal activities of the Bank and its Group consist of the business of commercial banking and other financial services including trade financing, custodial services, primary dealership in Government of Sri Lanka Treasury bills and development financing. There have been no significant changes in the nature of these activities during the year.

1.2 Basis of Preparation

The Financial Statements of the Bank and the Group encompassing the Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Accounting Policies and the Notes thereto are prepared in conformity with Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and on the basis of historical cost convention except otherwise as required by the above standards, which have been applied consistently with that of the previous year. Except as indicated, the Financial Statements presented in Sri Lankan Rupees have been rounded to the nearest thousand. No adjustment has been made for inflationary factors affecting the Financial Statements except on certain land and buildings, investment properties and dealing securities.

1.3 Estimates and Management Judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and/or in future periods if the revision affects future periods too.

1.4 Materiality and Aggregations

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

1.5 Statement of Compliance

The Financial Statements of the Bank and its subsidiaries are prepared in accordance with the Sri Lanka Accounting Standards (SLASs) laid down by the Institute of Chartered Accountants of Sri Lanka and Banking Act No. 30 of 1988 and amendments thereto and present fairly the financial position, financial performance and cash flows.

1.6 Foreign Currency Translation

Functional and Presentation Currency

Items in the Financial Statements of the Bank and each of its subsidiaries are translated using their functional currency, being the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in Sri Lankan rupees, which is the functional and presentation currency of the Bank and its subsidiaries.

1.6.1 Foreign Currency Transactions

Transactions in foreign currencies are measured at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sri Lankan rupees at the exchange rate ruling at the Balance Sheet date. Foreign exchange differences arising from this translation are recognised in the Income Statement. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into Sri Lankan rupees at the exchange rate ruling at the date the fair value was determined.

1.6.2 Foreign Operations

The results and financial position of the Group's operations whose functional currency is not Sri Lankan Rupees are translated into Sri Lankan Rupees as follows:

- Assets and liabilities are translated at the exchange rate ruling at the Balance Sheet date;
- Income and expenses in the Income Statement are translated at an average exchange rate approximating the exchange rates at the dates of the transactions; and in the case of income and expenses of overseas branches, the monthly average exchange rates are applied for translation;
- Resulting exchange differences are recognised as a separate component of equity;
- Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Resulting net unrealised gains and losses are dealt with through the Income Statement.

1.6.3 Consolidation Adjustments

On consolidation, foreign exchange differences arising from the translation of net investments in foreign entities, as well as any borrowings and instruments designated as foreign currency hedges of such investments are taken to capital reserves. When a foreign operation is disposed of, such currency translation differences are recognised in the Income Statement as part of the gain or loss on disposal.

1.7 Basis of Consolidation

The Bank's Financial Statements comprise the consolidation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Unit and the foreign operations that are integral to the Bank. The Group Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of Sri Lanka Accounting Standard No. 26 on Consolidated and Separate Financial Statements (Revised 2005) and Associates in terms of Sri Lanka Accounting Standard No. 27 on Investments in Associates. (Revised 2005)

1.7.1 Subsidiaries

Subsidiaries are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the financial and operating policies.

Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal.

A listing of the Bank's principal subsidiaries is given in Note 25 to the Financial Statements. Separate disclosure is made in respect of minority interest.

1.7.2 Associates

Associates are entities in which the Group has significant influence, but not control, and generally holds a shareholding of between and including 20% and 50% of the voting rights.

The Group's investments in associates are initially carried at cost. The carrying amount is increased or decreased to recognise the Group's share of net assets of the associate, less any impairment in value after the date of acquisition. Where the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The results of the associates are taken from the latest audited accounts or unaudited management accounts of the associates prepared at dates not more than three months prior to the end of the financial year of the Group.

A listing of the Bank's principal Associates is shown in Note 24 to the Financial Statements.

1.7.3 Transactions Eliminated on Consolidation

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profits and losses resulting from transactions between the Group and its associates are also eliminated on consolidation to the extent of the Group's interests in the associates. Where necessary, adjustments are made to the Financial Statements of subsidiaries and associates to bring the accounting policies used in line with those used by the Group.

1.8 Taxation

1.8.1 Current Taxation

Provision for taxation on Sri Lankan operations is made on the basis of the net profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. Provision for taxation on the overseas branches is made on the basis of the net profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes.

1.8.2 Deferred Taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Temporary differences are not recognised for goodwill, that are not deductible for tax purposes and for the initial recognition of assets or liabilities that neither affects accounting nor taxable profit. The amount of deferred tax is provided based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the Balance Sheet date.

Deferred tax assets that arise from unused tax losses and unused tax credits are recognised to the extent that it is probable that future taxable profits will be available against, which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on accelerated tax depreciation, investments in subsidiaries and associates and also securities except where the timing of the reversal of the temporary difference can be controlled and also it is possible that the temporary difference will not be reversed in the foreseeable future.

2. ASSETS AND BASIS OF THEIR VALUATION

2.1.1 Loans and Advances

All loans and advances are recognised when cash is advanced to borrowers. Loans and advances are stated in the Balance Sheet net of provisions for loan losses and net of interest, which is not accrued to revenue.

2.1.2 Finance Leases

Assets leased to customers, which transfer substantially all the risks and rewards associated with ownership other than legal title for a specific period are accounted for as finance leases.

Lease receivables are stated in the Balance Sheet net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery.

2.1.3 Credit Card Receivables

Amounts receivable on credit cards are included in advances to customers at the amounts expected to be recovered.

2.2 Non-performing Loans and Provision for Loan Losses

2.2.1 Non-Performing Loans

Loans, advances and finance leases which are 90 days or more in arrears of due capital or interest are classified as non-performing.

2.2.2 Provision for Loans, Advances and Finance Leases

(a) Provision for Non-Performing Loans and Advances

Provisions for non-performing loans and advances are made on the basis of a continuous review of all loans and advances in accordance with the applicable Accounting Standards and the regulations imposed by the Central Bank of Sri Lanka.

Accordingly, specific provisions have been made as follows:

Period Outstanding	Classification	Provision made net of realisable value of the security
6 to 12 months	Sub-standard	20%
12 to 18 months	Doubtful	50%
18 months and over	Loss	100%

Additional provisions have also been made over and above the minimum percentages specified above, on a case-by-case basis depending on the risk associated with such loans.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the Income Statement.

In addition, the 'Hair Cut Rule' imposed by the Central Bank of Sri Lanka ie. the extent upto which the Forced Sale Value (FSV) of immovable property can be counted as the value of security (which is given below) is applied in determining the provisioning for non-performing advances.

No. of Years in Loss Category	% of FSV of the Property
First provisioning	75%
1 – 2 years in loss category	60%
2 – 3 years in loss category	50%
3 – 4 years in loss category	40%
Over 4 years	At the discretion of the Management.

(b) Provision for Lease Rentals Receivable in Arrears

Specific provision is made for following 02 categories:

Category	Provision
A	100% of capital outstanding of lease assets minus 50% of the invoice value/condition and valuation report whichever is lower, net of up front rentals and cash security obtained, if any.
B	100% of capital outstanding net of up front rentals and cash security obtained, if any.

Category A - Identified at the time of termination of lease contract.

Category B - Identified at the time of loss of the assets.

(c) Provision for Credit Card Receivables

Specific provision is made on credit card receivables as follows:

Period Outstanding	Classification	Provision
3 - 6 months	Overdue	50%
Over 6 months	Loss	100%

(d) Provision for Pawning

A 100% specific provision is made for the total amount advanced for unsold articles at every auction.

(e) Provision for Regular Advances

Apart from specific provisions, the Bank also carries general provision for credit losses to absorb all losses inherent in its loan portfolio. In terms of a Direction issued by the Central Bank of Sri Lanka, it requires that a general provision up to 1% on total performing and overdue loans

and advances be made on or before 31 March 2009. The Central Bank requires that the general provision be made at the rate of 0.1% per quarter on performing and overdue loans and advances commencing the fourth quarter 2006.

Accordingly, a general provision of 0.5% on total performing and overdue loans and advances including credit card receivables, lease rental receivables, pawning has been made in the Financial Statements of the Bank as at 31 December 2007.

2.3 Investments

2.3.1 Investments in Subsidiaries

Investments in Subsidiaries are accounted for under the cost method of accounting in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 on Consolidated and Separate Financial Statements. Accordingly, investments in subsidiaries are stated in the Bank's Balance Sheet at cost, less impairment losses if any.

2.3.2 Investments in Associates

Investments in Associates are accounted for under the cost method in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 on Consolidated and Separate Financial Statements.

In the Bank's Balance Sheet, investments in associates are stated at cost, less impairment losses if any.

2.3.3 Dealing Securities

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are marked to market and carried at market value in the Balance Sheet. Any gains/losses on mark to market valuation are dealt with through the Income Statement.

2.3.4 Investment Securities

These are acquired and held for yield or capital growth in the medium or long-term. Such securities are recorded at cost. Changes in market values of these securities are not taken into account, unless there is considered to be diminution in value, which is other than temporary.

2.3.5 Foreclosed Properties

Foreclosed properties acquired in full or partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the market value of the foreclosed assets and the related loan outstanding is recognised as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties in satisfaction of the debts. If the market value falls below the cost subsequently, a provision is made in the Income Statement for the difference between the market value and the cost. Foreclosed properties are not subject to depreciation.

Subsequent gains and losses on the disposal of the foreclosed properties are taken into account in determining operating profits.

2.3.6 Investment Properties

Investment property is property that is held to earn rentals or for capital appreciation or both and the future economic benefits that are associated with the investment property. Investment property is accounted for under cost model in the Financial Statements. Accordingly, after recognition as an asset, the property is carried at its cost less accumulated depreciation and impairment losses.

2.4 Property, Plant & Equipment

2.4.1 All property, plant & equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. The assets are stated at historical cost or at revaluation less accumulated depreciation which is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives specified in *2.4.2* below.

2.4.2 Depreciation is provided on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

The depreciation on domestic assets is determined using following estimated useful lives:

Freehold Building	Over 40 years
Office Equipment	Over 08 years
Furniture & Fittings	Over 08 years
Computer Equipment	Over 05 years
Motor Vehicles	Over 04 years

The future economic benefits embodied in the assets that are used by overseas branches are different from that of the ones used in domestically in terms of the asset's expected utility to these branches.

Accordingly, the depreciation on assets belonging to overseas branches is determined using following estimated useful lives.

Freehold Building	Over 50 years
Freehold/Leasehold Refurbishment	Over 10 years
Office Equipment & Computers	Over 05 years
Furniture & Fittings	Over 10 years

Leasehold land and premises are amortised over the life of each lease. No depreciation is provided on freehold land. Generally, costs associated with developing computer software programmes are recognised as an expense that is incurred. However, expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement

and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives.

2.4.3 Provisioning for depreciation of property, plant & equipment is made on pro-rata basis.

2.4.4 A proportion of freehold properties is revalued each year so that all such properties are revalued over a period of five years. These valuations are based on open market value of existing use. The surpluses arising on the revaluations are credited to the Revaluation Reserve Account. The revaluation reserve included in the equity will be transferred to retained earnings, if the underlying assets are sold.

2.5 Impairment of Assets

The carrying amounts of the group's assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount of a particular assets or portfolio of assets is reduced to the estimated recoverable amount by means of a charge to the Income Statement, in those expense categories consistent with the function of impaired asset, except for property previously revalued, where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the fair value of an asset or cash-generating unit less costs to sell. In determining the value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then, to reduce the carrying amount of the other assets in the unit.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank makes an estimate of recoverable amount. A previously recognised impairment losses other than in respect of goodwill are reversed only if there has been a change in the estimates used to determine the asset's recoverable amount, since the last impairment losses were recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.6 Intangible Assets

Intangible Assets represent the value of computer application software licensed for use of the Bank, other than software applied to the operation software system of computers. Intangible assets are carried at its cost less accumulated amortisation and any impairment losses.

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably.

The initial costs comprise licence fees paid at the time of purchase, duties/levies and also other directly attributable expenditure that are incurred in customising the software for its intended use. The subsequent expenditure that will enable the assets to generate future economic benefit in excess of its original capacity, is also recognised as cost of the assets.

The cost is amortised using the straight-line method over the estimated useful life of 05 years commencing from date the application software is available for use over the best estimate of its useful economic life. A periodic review is performed on intangible assets to confirm that there has been no impairment.

2.7 Government of Sri Lanka Treasury Bills, Bonds and other Securities

2.7.1 Investments that are Held for Trading

Investments in Treasury Bills and Treasury Bonds that are acquired for the purpose of short-term selling (held for trading) are marked to market and carried at that value in the Balance Sheet. Gains and losses on mark to market valuation are dealt with through the Income Statement.

2.7.2 Long-Term Investments that are Held to Maturity

Investments in Treasury Bills and Treasury Bonds that the Bank intends and is able to hold to maturity are reflected at the value of the Bonds/ Bills purchased and the discount/premium accrued thereon. Discounts received/premia paid are taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

2.8 Repurchase Agreements

2.8.1 Securities Sold Under Repurchases Agreements (Repos)

Securities sold under repurchase agreements ('repos') are treated as collateralised borrowings and stated at the consideration received and interest accrued thereon. These are retained in the Financial Statements and the counter-party liability is accounted for as a liability and classified under debt securities in issue.

2.8.2 Securities Purchased Under Resale Agreements (Reverse Repos)

Securities purchased under Resale Agreements are treated as collateralised lending and recorded at the consideration paid and interest

accrued thereon. The amount lent is shown as an asset either as Loans and Advances to Customers or Loans to other banks.

The difference between sale and repurchase price and also purchase price and resale price are treated as interest paid and received respectively and accrued evenly over the life of repo agreement.

3. LIABILITIES AND PROVISIONS

3.1 Defined Benefit Plans

3.1.1 Bank of Ceylon Pension Trust Fund

The 'Bank of Ceylon Pension Trust Fund' is a funded, non-contributory, defined retirement benefit plan, operated for the payment of pensions until death to the permanent employees, who have completed a minimum of ten years of continuous service with the Bank, at their retirement on reaching the retirement age on or after 55 years or on medical grounds, before reaching retirement age. The pension is computed as a percentage of the last drawn salary excluding certain allowances. Contributions to the Pension Trust Fund are made monthly, based on the advice of a qualified actuary, currently at 56.76% of gross salary for employees who joined the Bank prior to 1 January 1996. Employees who joined the Bank on and after 1 January 1996 may contribute 20% of their gross salary to a Pension Fund in which event the Bank contributes 5%. This arrangement is tentative pending the formulation of a contributory pension scheme.

3.1.2 Bank of Ceylon Widows'/Widowers' and Orphans' Pension Fund

The Bank is liable for and guarantees the payments to the beneficiaries of the 'Bank of Ceylon Widows'/Widowers' and Orphans' Pension Fund' to which the Bank's employees monthly contribute 5% of their gross salary. The Bank's liability towards the beneficiaries of the employees arises when an employee who has contributed to the fund for five continuous years dies while in service or on the death of a pensioner where the Bank will be liable to pay a monthly Widows' and Orphans' Pension to his/her beneficiaries. The pension to beneficiaries of an employee who dies while in service is based on the last drawn salary excluding certain allowances. The fund is actuarially valued by a qualified actuary from once in three years and the deficit is bridged piece meal. Bridging of full deficit is currently under evaluation. This would be done in consultation with the Actuary, Trustees and Beneficiaries.

Both the Pension Fund and the Widows'/Widowers' and Orphans' Pension Fund are approved by the Government and are independently administered.

3.1.3 Provision for Gratuity

Provision is not made in the Financial Statements for retirement gratuity payable under the Payment of Gratuity Act No. 12 of 1983, to employees who joined the Bank prior to 1 January 1996 as the Bank has its own non-contributory retirement benefit scheme in force. However, employees, whose services are terminated other than by retirement, are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the basic or consolidated wage or salary, cost of living and all other allowances applicable to the last month of the financial year, for each year of continuous service. These expenses are accounted for on a cash basis. A provision is being made in this Financial Statements for retirement gratuities from the first year of service, for all employees, who joined the Bank on or after 1 January 1996, as they are not covered by the pension scheme of the Bank, in conformity with the Sri Lanka Accounting Standards No. 16 on Retirement Benefit Costs. However, under the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only on completion of 5 years of continued services.

3.2 Defined Contribution Plans

Contributions to defined contribution plans are recognised as an expense in the Income Statement as incurred.

3.2.1 Bank of Ceylon Provident Fund

All employees of the Bank are members of the 'Bank of Ceylon Provident Fund' to which the Bank contributes 12% of employee's monthly gross salary excluding overtime while employees contribute 8%. The Bank's Provident Fund is an approved Fund, which is independently administered.

3.2.2 Employees' Trust Fund

All employees of the Bank are members of the Employees' Trust Fund to which Bank contributes 3% of employee's monthly gross salary excluding overtime.

3.3 Provisions for Liabilities

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

4. INCOME STATEMENT

Revenue Recognition

4.1 Interest Income from Loans and Advances

Interest income from loans and advances is recognised on an accrual basis. Interest ceases to be accrued when the recovery of principal or interest is in arrears for more than 90 days. Interest income from non-performing loans and advances is accounted for on cash basis. Interest

falling due on non-performing loans and advances are credited to interest in suspense account on memorandum basis. In addition, interest accrued up to three months on such non-performing loans and advances is also eliminated from the interest income and transferred to interest in suspense.

4.2 Interest Income from Other Sources

Interest income from Government or Central Bank of Sri Lanka securities is recognised on a time proportionate basis as premia/discounts on purchase and amortised to income on a straight-line basis over the period to maturity. Income from all other interest bearing securities is recognised on an accrual basis.

4.3 Commission and Fee Income

Commission and fee income mainly comprise fees receivable from customers for guarantees and other services provided by the Bank, and fees for foreign and domestic payment tariff. Such income is recognised as revenue at the time of the services are provided. Income on the endorsement of bills of exchange is recognised only when the bill is received and either issued or endorsed, and the payment under the particular instrument has been effected.

4.4 Dividend Income

Dividend income is recognised when the right to receive payment is established.

4.5 Gains or Losses Arising from Investment Securities

Gains or losses arising from the sale of equity shares, units, and financial instruments, including Treasury bills sold prior to maturity, are accounted for on the date on which the transaction takes place.

4.6 Lease Income

Lease income is the interest component of the lease rentals of all finance leases receivable during the year. The excess to the aggregate rental receivable over the cost of the leased assets constitutes unearned income, which is taken into revenue over the term of the lease, from the month in which the lease is executed, in proportion to the remaining receivable balance of the lease. Interests on finance leases cease to be accrued when they are in arrears for more than 90 days. Thereafter, such income is recognised on cash basis.

4.7 Interest Expenses

Interest expenses are recognised on accrual basis.

4.8 Operating Expenses

All the expenses payable are recognised on accrual basis in the Income Statement to the period to which they relate.

5. COMMITMENTS AND CONTINGENCIES

Contingent liabilities are the possible obligations whose existence will be confirmed only by uncertain future events or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Balance Sheet but are disclosed unless they are remote.

6. SEGMENTAL REPORTING

Segmental information is presented in respect of the Group's business.

Business segments provide products and services whose risks and returns are different from those of other business segments. These segments comprise banking, leasing, Treasury, property and investments.

Geographical segments provide products or services within a particular economic environment where risks and returns are different from those of other economic environments. These segments comprise domestic, offshore banking units (branches) and offshore banking division.

7. CASH FLOW AND CASH AND CASH EQUIVALENTS

The cash flow has been prepared by using the 'Direct Method'. Cash and cash equivalents comprise cash, amounts due from other banks and other short-term highly liquid investments with less than 90 days maturity from date of acquisition.

8. COMPARATIVE FIGURES

Where necessary, amounts shown for the previous year have been reclassified to facilitate comparison.

9. EVENTS AFTER THE BALANCE SHEET DATE

Where necessary, all the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements.

10. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
1. INCOME				
Interest income (Note 2)	**42,285,788**	26,823,214	**44,083,422**	28,219,190
Dividend income (Note 4)	**424,805**	451,913	**250,106**	306,195
Net gain from investment securities	**1,199,121**	918,437	**1,208,591**	969,582
Fee and commission income	**3,098,848**	2,196,456	**3,123,101**	2,215,632
Foreign exchange profit	**1,178,696**	2,261,431	**1,178,696**	2,261,431
Other operating income (Note 5)	**686,620**	755,413	**1,105,413**	1,474,677
Recovery of non-performing advances	**1,285,643**	1,785,201	**1,294,013**	1,794,728
Share of profit of associated companies' after tax (Note 11)	**–**	–	**74,629**	3,972
	50,159,521	35,192,065	**52,317,971**	37,245,407
2. INTEREST INCOME				
Customer advances	**31,080,193**	18,447,589	**32,652,335**	19,742,170
Short-term funds	**5,034,423**	4,263,331	**5,099,809**	4,263,945
Government of Sri Lanka restructuring bonds	**1,025,640**	2,060,413	**1,025,640**	2,060,413
Investment and dealing securities	**5,145,532**	2,051,881	**5,305,638**	2,152,662
	42,285,788	26,823,214	**44,083,422**	28,219,190
3. INTEREST EXPENSE				
Customer deposits	**17,327,730**	10,635,966	**17,626,572**	10,882,724
Debt securities in issue	**9,328,890**	3,397,874	**9,485,805**	3,571,402
Other borrowed funds and refinance	**2,794,146**	1,704,891	**3,228,446**	1,892,409
Other expenses	**2,319**	4,951	**12,172**	8,667
	29,453,085	15,743,682	**30,352,995**	16,355,202
4. DIVIDEND INCOME				
Subsidiaries				
- Quoted	**172,793**	146,089	**–**	–
- Unquoted	**5,624**	9,050	**–**	–
Associates				
- Unquoted	**675**	4,451	**–**	–
Investment securities				
- Quoted	**113,040**	96,337	**113,040**	102,657
- Unquoted	**11,946**	11,359	**11,956**	11,359
Dealing securities				
- Quoted	**14,774**	105,310	**19,157**	112,862
Income from Unit Trust	**105,953**	79,317	**105,953**	79,317
	424,805	451,913	**250,106**	306,195

For the year ended 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
5. OTHER OPERATING INCOME				
Profit/(loss) on sale of property, plant & equipment including foreclosed properties	**109,303**	213,055	**115,966**	213,267
Other income	**577,317**	542,358	**989,447**	1,261,410
	686,620	755,413	**1,105,413**	1,474,677
6. PERSONNEL COSTS				
Staff emoluments	**5,633,287**	5,326,985	**5,852,615**	5,515,060
Banks contribution to defined contribution plans				
Employees' Provident Fund	**420,454**	411,861	**439,749**	435,527
Employees' Trust Fund	**105,508**	102,468	**110,335**	108,192
Other personnel costs	**414,405**	351,686	**429,969**	370,860
	6,573,654	6,193,000	**6,832,668**	6,429,639

The number of persons employed by the bank as at 31 December 2007 was 8,253 (8,363 as at 31 December, 2006).

7. STAFF RETIREMENT BENEFITS				
Bank's contribution to defined benefit plans				
Bank of Ceylon Pension Trust Fund	**1,699,912**	1,914,652	**1,699,912**	1,914,652
Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund	**456,000**	456,000	**456,000**	456,000
Provision for terminal gratuity	**39,291**	35,030	**45,664**	79,554
	2,195,203	2,405,682	**2,201,576**	2,450,206

The Bank has established two pension schemes namely the Bank of Ceylon Pension Trust Fund and the Widows' / Widowers' and Orphans' Pension Fund. These funds cover substantial portion of liabilities towards employees. Both schemes are defined benefit plans and are funded. Both funds have been closed to new active members since 1 January 1996. The assets of the funded plans are held independently of the Bank's assets in separate trustee administered funds. Both schemes are valued by an independent actuary at least once in every three years.

The latest actuarial valuations were carried out as at 31 December 2006 by an independent consultancy firm. The valuation method corresponds to the requirement under the Sri Lanka Accounting Standard No.16 - Retirement Benefit Costs. The valuation was done on an ongoing basis and based on a projected unit method.

The principal actuarial assumption used is the absolute yield gap at 4%. The expected investment returns are assumed to be 1.7% lower than inflation.

(1) Bank of Ceylon Pension Trust Fund

In the last valuation carried out as at 31 December 2006, the estimated deficit of the Fund was Rs. 1.91 billion (Rs 2.45 billion as at 1 January 2004). The fair value of the plan assets as at 31 December 2006 was Rs. 25.73 billion (Rs. 18.33 billion as at 1 January 2004) and the total liabilities of the Fund was Rs. 27.63 billion (Rs. 20.78 billion as at 1 January 2004).

Accordingly, a sum of Rs. 1,700 million has been contributed to the Fund in 2007 (2006 - Rs. 1,914 million).

7. STAFF RETIREMENT BENEFITS *(CONTD...)*

(2) Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund

The valuation carried out as at 31 December 2006 revealed a deficit of Rs. 1.63 billion (Rs. 2.02 billion as at 1 January 2004).

The fair value of the plan assets of the Widows' / Widowers' & Orphans' Fund as at 31 December 2006 was Rs. 4.98 billion (Rs. 2.77 billion as at 1 January 2004) and the total liabilities of the fund was Rs. 6.61 billion (Rs. 4.79 billion as at 1 January 2004).

In order to fund the deficit, Bank has contributed a sum of Rs. 456 million to the Fund in 2007 in addition to the members contribution (2006 - Rs. 456 million).

For the year ended 31 December	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
8. OTHER OPERATING EXPENSES				
Other operating expenses include the following:				
Directors' emoluments	**554**	639	**4,058**	3,747
Auditors' remuneration	**18,162**	15,174	**19,339**	16,130
Depreciation on property, plant & equipment (Note 29)	**537,227**	526,151	**627,888**	642,724
Depreciation on investment properties (Note 23)	**28,748**	31,043	**30,156**	31,043
Professional expenses	**32,169**	33,311	**32,379**	33,314
Legal expenses	**22,757**	18,630	**33,450**	26,479
Donations	**2**	1,287	**2**	1,287
Amortisation of intangible assets (Note 30)	**194,762**	136,682	**195,603**	138,057
9. PROVISION FOR LOAN LOSSES				
Specific provision for loans and advances	**636,645**	932,502	**639,820**	941,447
Specific provision for pawning advances	**13,393**	5,742	**13,393**	5,742
Specific provision for credit card receivable	**35,705**	5,846	**35,705**	5,846
General provision made for regular advances	**461,379**	490,502	**461,379**	490,502
	1,147,122	1,434,592	**1,150,297**	1,443,537
Specific provision for leasing facilities	**39**	–	**113,070**	86,311
Specific provision made/(reversed) for bills of exchange	**24,075**	(65,234)	**11,761**	(65,234)
	1,171,236	1,369,358	**1,275,128**	1,464,614
10. PROVISION FOR FALL IN VALUE OF INVESTMENT AND DEALING SECURITIES				
Subsidiaries and associates	**39,400**	–	**800**	–
Dealing securities	**–**	–	**14,000**	185
	39,400	–	**14,800**	185
11. SHARE OF PROFIT OF ASSOCIATE COMPANIES AFTER TAX				
The Unit Trust Management Company (Private) Limited			**2,704**	1,935
Lanka Securities (Private) Limited			**5,310**	10,225
Mireka Capital Land (Private) Limited			**59,312**	(10,373)
Transnational Lanka Records Solutions (Private) Limited			**7,667**	1,974
Southern Development Financial Company Limited			**(364)**	211
			74,629	3,972

For the year ended 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
12. PROVISION FOR TAXATION				
Income tax on profits for the year				
Income tax on profit of domestic operations	**249,236**	182,867	**436,898**	360,350
Income tax on profits of off-shore operations	**1,061,521**	717,313	**1,061,521**	717,313
Income tax on profits of overseas branches	**134,559**	136,793	**134,559**	136,793
Under provision in respect of prior years	**53,167**	6,371	**23,210**	5,974
Deferred tax (released)/charged (Note 27)	**176,727**	467,124	**188,845**	472,697
	1,675,210	1,510,468	**1,845,033**	1,693,127

12.1 The tax liability on profit has been computed at the following rates:

	2007 %	2006 %
Income of Domestic Banking Unit	**35.0**	35.0
On-shore income of the Off-shore Banking Unit	**35.0**	35.0
Off-shore income of the Off-shore Banking Unit	**20.0**	20.0
Income of the branch in Maldives	**25.0**	25.0
Income of the branch in Chennai	**40.0**	40.0
Income of subsidiaries & associates - Quoted	**35.0**	35.0
Income of subsidiaries & associates - Unquoted	**35.0**	35.0

12.2 In terms of provisions of Section 32 (5) (b) of the Inland Revenue Act No. 10 of 2006, the tax loss brought forward can be set-off against the current year tax liability only to the extent of a maximum limit of 35% of the total statutory income of the year under review and any losses which cannot be deducted, may be carried forward to the future years.

Accordingly, tax loss amounting to Rs. 1,053,982,855/- has been set-off against the current year tax liability (2006 - Rs. 1,608,778,422/-).

12.3 The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

For the year ended 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
Profit before tax	**4,518,467**	4,137,590	**5,178,991**	4,723,329
Prima facie tax calculated at a rate of 35%	**1,581,463**	1,448,157	**1,812,647**	1,653,165
Effect of different tax rate in other countries	**134,559**	136,793	**134,559**	136,793
Income not assessable for tax	**(2,085,810)**	(2,079,379)	**(2,476,862)**	(2,611,666)
Expenses not deductible for tax purposes	**1,815,104**	1,531,402	**2,162,634**	2,036,191
Deferred tax assets not released	**176,727**	467,124	**188,845**	472,697
Under provision in respect of previous years	**53,167**	6,371	**23,210**	5,947
Provision for taxation	**1,675,210**	1,510,468	**1,845,033**	1,693,127
Effective tax rate	**37.07%**	36.51%	**35.63%**	35.85%

12. PROVISION FOR TAXATION *(CONTD...)*

12.4 Notional Credit for Withholding Tax on Government Securities on Secondary Market Transactions

In terms of the provisions of Section 137 of the Inland Revenue Act No. 10 of 2006, Bank is entitled to a notional tax credit for the interest income from the secondary market transactions in Government Securities subject to such interest income which forms part of the statutory income of the Bank for that year of assessment.

Accordingly, the net income earned by the Bank from the secondary market transactions in Government Securities has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 3,874,177/- for the year 2007 has been recognised in the Financial Statement for the year ended 31 December 2007 (2006 - Rs. 79,563,836/-).

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholder by the number of ordinary shares in issue as at Balance Sheet date.

	Bank		Group	
For the year ended 31 December	**2007**	2006	**2007**	2006
Net profit attributable to ordinary shareholder (Rs. '000)	**2,843,257**	2,627,122	**3,243,831**	2,945,076
Number of ordinary shares in issue	**4,000,000**	4,000,000	**4,000,000**	4,000,000
Basic earnings per share (Rs.)	**710.81**	656.78	**810.96**	736.27
Diluted earnings per share (Rs.)	**710.81**	656.78	**810.96**	736.27

14. DIVIDENDS

Under the agreement between the Bank and the Government of Sri Lanka, on re-capitalising and granting of autonomy to the Bank of Ceylon, the Government reserves the option of allowing the Bank to retain any level of profit after tax. All profits after deduction of tax, loan loss provision and any such portion for reserves, if any, as the Government shall determine, will be issued as dividends to the Government at the end of each year.

Accordingly, a sum of Rs. 846 million has been paid by the Bank as dividends during the year (2006 - Rs. 1,173 million).

	Bank		Group	
As at 31 December	**2007 Rs. '000**	2006 Rs. '000	**2007 Rs. '000**	2006 Rs. '000
15. CASH AND SHORT-TERM FUNDS				
Cash in hand	**5,847,295**	5,243,141	**5,913,513**	5,279,250
Balances with other banks	**3,397,247**	2,546,856	**3,397,487**	2,548,255
	9,244,542	7,789,997	**9,311,000**	7,827,505
16. BALANCES WITH CENTRAL BANKS				
Central Bank of Sri Lanka	**14,731,322**	14,877,942	**14,731,322**	14,877,942
Reserve Bank of India	**847,899**	383,986	**847,899**	383,986
Maldivian Monetary Authority	**1,673,880**	1,844,068	**1,673,880**	1,844,068
	17,253,101	17,105,996	**17,253,101**	17,105,996

In terms of the provisions of Section 93 of the Monetary Law Act No. 58 of 1949, the Bank is required to maintain a cash reserve with the Central Bank of Sri Lanka. The minimum cash reserve required to be maintained at the Central Bank of Sri Lanka as at 31 December 2007 was 10% (2006 - 10%) on Sri Lanka Rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities maintained by the Bank. Overseas branches are also required to maintain reserve balances with respective monetary authorities where those branches are located.

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
17. TREASURY BILLS, BONDS AND OTHER ELIGIBLE BILLS				
Treasury bills and bonds held for trading	**32,347,366**	41,553,857	**32,847,434**	42,648,558
Treasury bills, bonds and other eligible bills held to maturity	**7,003,350**	4,382,570	**7,003,350**	4,426,885
Gain/(loss) on marking to market valuation	**(145,236)**	(128,237)	**(145,236)**	(128,237)
	39,205,480	45,808,190	**39,705,548**	46,947,206

Treasury bills, bonds and other eligible bills are debt securities issued by the Government of Sri Lanka and the respective Government authorities where the overseas branches are located. These bills and bonds mature within a period of less than twelve months.

As at 31 December	2007 No. of ordinary shares*	2007 Carrying value Rs. '000	2006 No. of ordinary shares*	2006 Carrying value Rs. '000
18. DEALING SECURITIES - BANK				
Listed equity securities				
Banking, Finance and Insurance				
Commercial Bank of Ceylon PLC	**232,345**	**34,154**	82,680	15,709
Nations Trust Bank PLC	**100,000**	**2,975**	29,200	825
HDFC Bank Limited (Rs. 100/-)	**90,900**	**11,635**	90,900	15,885
Capital Development & Investment Company Limited	**10,461,542**	**1,339,077**	10,489,042	954,503
DFCC Bank Limited	**12,679,999**	**1,610,360**	–	–
Hatton National Bank PLC	**3,600**	**441**	–	–
Sampath Bank Limited	**100,000**	**12,000**	–	–
		3,010,642		986,922
Diversified Holdings				
Hayleys PLC	**16,800**	**1,810**	20,000	2,590
Hemas Holdings PLC	**36,300**	**3,449**	17,400	2,031
John Keells Holdings PLC	**214,400**	**27,282**	–	–
		32,541		4,621
Manufacturing				
Lanka Cement Limited	**14,708,709**	**106,638**	17,881,109	151,989
Lanka Tiles Limited	**–**	**–**	7,900	514
Colombo Dockyard Limited	**3,000**	**159**	–	–
ACL Cables Limited	**19,300**	**1,824**	–	–
Chemical Industries (Colombo) PLC	**130,600**	**5,061**	–	–
Dipped Products Limited	**39,900**	**3,242**	–	–
Lanka Milk Foods (CWE) Limited	**1,000**	**46**	–	–
Tokyo Cement Lanka Limited	**2,500**	**599**	–	–
		117,569		152,503

As at 31 December	2007 No. of ordinary shares*	2007 Carrying value Rs. '000	2006 No. of ordinary shares*	2006 Carrying value Rs. '000
18. DEALING SECURITIES - BANK *(CONTD...)*				
Listed equity securities				
Trading				
Singer Sri Lanka Limited	**–**	**–**	44,200	3,282
		–		3,282
Hotels & Travels				
Asian Hotel Properties Limited	**20,000**	**800**	–	–
Ceylon Hotels Corporation PLC	**6,100**	**328**	–	–
		1,128		–
Power & Energy				
Lanka IOC Limited	**–**	**–**	890,000	25,365
Chevron Lubricants PLC	**8,500**	**725**	–	–
		725		25,365
Services				
Sri Lanka Telecom PLC	**164,000**	**5,166**	175,000	4,856
Dialog Telekom PLC	**255,200**	**5,104**	–	–
		10,270		4,856
Motors				
Associated Motorways Limited	**78,700**	**10,074**	10,000	1,580
Diesel & Motor Engineering Company PLC	**1,500**	**117**	–	–
		10,191		1,580
Plantations				
Kegalle Plantations PLC	**23,500**	**1,269**	29,100	1,302
		1,269		1,302
Total dealing securities		**3,184,335**		1,180,431

* Note: The par value of all shares, if not specifically mentioned, is Rs. 10 /- and paid in full.

As at 31 December	2007		2006	
	No. of ordinary shares*	**Carrying value Rs. '000**	No. of ordinary shares*	Carrying value Rs. '000
18. DEALING SECURITIES - GROUP				
Listed equity securities				
Banking, Finance and Insurance				
Commercial Bank of Ceylon PLC	**239,145**	**35,154**	82,680	15,709
Commercial Bank of Ceylon PLC - Non-Voting	**69,300**	**5,163**	–	–
Seylan Bank PLC	**200,000**	**1,600**	200,000	1,950
Hatton National Bank PLC	**23,600**	**1,506**	22,100	3,426
Nations Trust Bank PLC	**100,000**	**2,975**	29,200	825
HDFC Bank Limited (Rs. 100/-)	**92,200**	**11,808**	99,400	17,370
DFCC Bank Limited	**12,757,099**	**1,620,152**	–	–
Capital Development & Investment Company Limited	**10,461,542**	**1,339,077**	10,489,042	954,503
Sampath Bank Limited	**100,000**	**12,000**	–	–
National Development Bank PLC	**20,000**	**3,375**	20,000	4,020
		3,032,810		997,803
Beverage, Food & Tobacco				
Distilleries Company of Sri Lanka Limited (Rs. 1/-)	**42,500**	**4,271**	24,500	2,205
Lanka Milk Foods (CWE) Limited	**1,000**	**46**	45,900	1,698
		4,317		3,903
Diversified Holdings				
Hayleys PLC	**16,800**	**1,810**	70,400	9,117
Richard Pieris & Company PLC	**8,700**	**413**	8,700	679
John Keells Holdings PLC	**229,436**	**29,195**	30,030	5,856
Hemas Holdings PLC	**36,300**	**3,449**	32,400	3,782
Kshatriya Holdings PLC	**42**	**–**	100	7
		34,867		19,441
Hotels & Travels				
Asian Hotel Properties Limited	**60,000**	**2,400**	40,000	2,040
Galadari Hotel Lanka Limited	**–**	**–**	20,900	228
John Keells Hotels PLC	**30,000**	**210**	30,000	255
Stafford Hotels PLC	**8,200**	**94**	–	–
Ceylon Hotels Corporation PLC	**6,600**	**814**	–	–
		3,518		2,523

As at 31 December	2007		2006	
	No. of ordinary shares*	**Carrying value Rs. '000**	No. of ordinary shares*	Carrying value Rs. '000
18. DEALING SECURITIES - GROUP *(CONTD...)*				
Listed equity securities				
Manufacturing				
Ceylon Grain Elevators Limited	**100,000**	**130**	–	–
Colombo Dockyard PLC	**3,000**	**159**	–	–
Dankotuwa Porcelain PLC	**87**	**1**	87	1
ACL Cables Limited	**24,300**	**2,297**	–	–
Chemical Industries (Colombo) PLC	**130,600**	**5,061**	–	–
Dipped Products Limited	**39,900**	**3,242**	–	–
Tokyo Cement Company (Lanka) Limited	**27,500**	**1,055**	24,100	4,693
Lanka Cement Limited	**14,708,709**	**106,638**	17,881,109	151,990
Lanka Tiles Limited	**–**	**–**	7,900	514
Royal Ceramic Lanka Limited	**25,000**	**800**	64,200	231
ACL Plastics Limited	**11,100**	**358**	–	–
Pelwatte Sugar Industries Limited	**8,500**	**223**	–	–
Sierra Cables Limited	**150,000**	**255**	–	–
		120,219		157,429
Trading				
Singer Sri Lanka Limited	**–**	**–**	44,200	3,282
		–		3,282
Power & Energy				
Lanka IOC Limited	**20,000**	**430**	935,000	26,625
Chevron Lubricants PLC	**8,500**	**725**	70,900	6,080
Vallibel Power Erathna PLC	**5,575,000**	**11,150**	5,625,000	10,658
		12,305		43,363
Services				
Sri Lanka Telecom PLC	**184,200**	**5,802**	385,000	10,684
Dialog Telekom PLC	**695,200**	**13,904**	105,000	2,783
		19,706		13,467
Motors				
Associated Motorways Limited	**88,700**	**11,354**	10,000	1,580
Diesel & Motor Engineering Company Limited	**14,322**	**1,271**	6,380	638
		12,625		2,218
Plantations				
Kegalle Plantations PLC	**23,500**	**1,269**	29,100	1,302
Balangoda Plantations Limited	**–**	**–**	9,900	163
Kotagala Plantations Limited	**–**	**–**	95,000	254
Horana Plantations Limited	**–**	**–**	4,700	86
Madulsima Plantations Limited	**25,000**	**281**	–	–
		1,550		1,805

As at 31 December	2007 No. of ordinary shares*	2007 Carrying value Rs. '000	2006 No. of ordinary shares*	2006 Carrying value Rs. '000
18. DEALING SECURITIES - GROUP *(CONTD...)*				
Listed equity securities				
Health Care				
Lanka Hospitals Corporation Limited	**47,500**	**808**	35,500	923
Nawaloka Hospitals PLC	**400,000**	**960**	200,000	580
		1,768		1,503
Land & Property				
Colombo Land & Development Company Limited	**150,000**	**585**	150,000	660
Fort Land Limited	**20,000**	**310**	30,000	473
		895		1,133
Chemical & Pharmaceuticals				
Chemical Industries (Colombo) PLC	**90,000**	**3,488**	50,000	4,850
Chemical Industries (Colombo) PLC - Non-Voting	**55,800**	**1,535**	25,000	1,544
		5,023		6,394
Total dealing securities		**3,249,603**		1,254,264

* Note : The par value of all shares, if not specifically mentioned, is Rs. 10 /- and paid in full.

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
19. PLACEMENT WITH AND LOANS TO OTHER BANKS				
Placements with other banks	**19,721,881**	23,735,324	**19,721,881**	23,735,324
	19,721,881	23,735,324	**19,721,881**	23,735,324
20. LOANS AND ADVANCES TO CUSTOMERS				
20.1 Bills of Exchange				
Export bills	**5,689,531**	3,579,494	**5,689,531**	3,579,494
Import bills	**5,740,559**	948,515	**5,740,559**	948,515
Local bills	**–**	–	**345,335**	502
	11,430,090	4,528,009	**11,775,425**	4,528,511
Provision for loan losses [Note 20.1 (b)]	**(298,862)**	(298,661)	**(312,944)**	(298,707)
Net bills of exchange	**11,131,228**	4,229,348	**11,462,481**	4,229,804

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
20. LOANS AND ADVANCES TO CUSTOMERS *(CONTD...)*				
20.1 Bills of Exchange *(Contd...)*				
20.1(a) Analysis of net bills of exchange				
Not later than 3 months	**10,510,079**	3,682,015	**10,840,710**	3,682,471
Later than 3 months and not later than 6 months	**621,149**	547,333	**621,771**	547,333
	11,131,228	4,229,348	**11,462,481**	4,229,804
20.1(b) Movement in provision for bills of exchange				
Balance at 1 January	**298,661**	364,446	**298,707**	364,492
Adjustments & transfers	**–**	(551)	**26,350**	(551)
Amount provided during the year	**24,075**	–	**11,761**	–
Amount reversed during the year	**(23,874)**	(65,234)	**(23,874)**	(65,234)
Balance at 31 December	**298,862**	298,661	**312,944**	298,707
20.2 Loans and Advances				
Sri Lanka Rupee Loans and Advances				
Overdrafts	**41,323,510**	42,516,126	**41,323,510**	42,516,126
Term loans	**77,167,155**	48,406,901	**77,522,772**	49,020,459
Trust receipts	**7,595,277**	4,972,005	**7,595,277**	4,972,005
Staff loans	**12,782,804**	12,017,831	**12,851,065**	12,054,336
Loans under schemes	**10,986,691**	7,518,030	**11,196,083**	7,726,230
Foreclosed properties [Note 20.2 (b)]	**312,369**	1,076,374	**312,369**	1,183,159
	150,167,806	116,507,267	**150,801,076**	117,472,315
Foreign Currency Loans and Advances				
Overdrafts	**1,856,550**	1,775,655	**1,856,550**	1,775,655
Term loans	**121,375,962**	110,924,217	**121,375,962**	110,924,217
Trust receipts	**8,462,206**	6,295,500	**8,462,206**	6,295,500
Staff loans	**9,140**	6,041	**9,140**	6,041
	131,703,858	119,001,413	**131,703,858**	119,001,413
Total Sri Lanka rupee and foreign currency loans & advances	**281,871,664**	235,508,680	**282,504,934**	236,473,728
Provision for loan losses - specific [Note 20.2 (c)]	**(7,142,207)**	(9,067,814)	**(7,181,322)**	(9,194,414)
Provision for loan losses - general [Note 20.2 (c)]	**(1,423,934)**	(958,856)	**(1,423,934)**	(958,856)
Provision for foreclosed properties [Note 20.2 (d)]	**(39,733)**	(42,439)	**(39,733)**	(42,439)
Interest in suspense	**(7,858,784)**	(8,422,227)	**(7,861,533)**	(8,425,412)
Net loans and advances	**265,407,006**	217,017,344	**265,998,412**	217,852,607
20.2(a) Analysis of net loans and advances				
Not later than 1 year	**164,378,896**	146,984,932	**164,510,149**	147,376,361
Later than 1 year and not later than 5 years	**79,983,136**	56,214,039	**80,239,948**	56,499,740
Later than 5 years	**21,044,974**	13,818,373	**21,248,315**	13,976,506
	265,407,006	217,017,344	**265,998,412**	217,852,607

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
20. LOANS AND ADVANCES TO CUSTOMERS *(CONTD...)*				
20.2 Loans and Advances *(Contd...)*				
20.2(b) Foreclosed properties				
Balance at 1 January	**1,076,374**	1,331,012	**1,183,159**	1,452,918
Additions during the year	**34,968**	13,047	**34,968**	13,047
Disposals during the year	**(77,405)**	(267,685)	**(77,405)**	(282,806)
Adjustments/Transfers	**(721,568)**	–	**(828,353)**	–
Balance at 31 December	**312,369**	1,076,374	**312,369**	1,183,159
20.2(c) Movement in Provision for Loan Losses				
Balance at 1 January	**10,026,670**	9,838,539	**10,153,270**	9,945,757
Adjustments for difference of currency conversion	**102,045**	206,325	**102,045**	206,325
	10,128,715	10,044,864	**10,255,315**	10,152,082
Amounts recovered/written back on account of provisions previously made	**(1,255,639)**	(1,785,201)	**(1,264,009)**	(1,794,728)
Amount reversed due to loans written-off	**(1,540,124)**	(69,744)	**(1,540,124)**	(69,744)
Reclassifications/transfers	**86,067**	402,159	**3,777**	422,123
Provision for loan losses (Note 9): Specific	**685,743**	944,090	**688,918**	953,035
General	**461,379**	490,502	**461,379**	490,502
Balance at 31 December	**8,566,141**	10,026,670	**8,605,256**	10,153,270
20.2(d) Movement in Provision for Foreclosed Properties				
Balance at 1 January	**42,439**	96,383	**42,439**	96,383
Amount reversed during the year	**(3,240)**	(57,279)	**(3,240)**	(57,279)
Adjustments/Transfers	**534**	3,335	**534**	3,335
Amount provided during the year	**–**	–	**–**	–
Balance at 31 December	**39,733**	42,439	**39,733**	42,439
20.3 Lease Rentals Receivable - Not later than one year				
Gross investment in finance leases	**1,135,087**	106,258	**5,828,665**	2,230,528
Prepaid rentals	**(3,557)**	(3,052)	**(84,150)**	(12,749)
Net rentals receivable	**1,131,530**	103,206	**5,744,515**	2,217,779
Unearned income	**(352,788)**	(33,521)	**(1,380,317)**	(514,677)
Provision for lease rentals receivable (Note 20.6)	**(9,024)**	(6,375)	**(225,907)**	(77,613)
Net investment in finance leases	**769,718**	63,310	**4,138,291**	1,625,489

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
20. LOANS AND ADVANCES TO CUSTOMERS *(CONTD...)*				
20.4 Lease Rentals Receivable - Later than one year and not later than five years				
Gross investment in finance leases	**6,921,405**	2,413,345	**11,284,258**	8,459,592
Prepaid rentals	**(45,170)**	(30,452)	**(88,934)**	(58,054)
Net rentals receivable	**6,876,235**	2,382,893	**11,195,324**	8,401,538
Unearned income	**(1,820,174)**	(481,125)	**(2,943,393)**	(1,850,621)
Provision for lease rental receivable (Note 20.6)	**(514)**	(5,478)	**(221,459)**	(208,242)
Net investment in finance leases	**5,055,547**	1,896,290	**8,030,472**	6,342,675
20.5 Lease Rentals Receivable - Later than five years				
Gross investment in finance leases	**120,050**	52,701	**135,011**	53,747
Prepaid rentals	**(327)**	(742)	**(327)**	(747)
Net rentals receivable	**119,723**	51,959	**134,684**	53,000
Unearned income	**(36,426)**	(20,272)	**(41,188)**	(20,509)
Provision for lease rental receivable (Note 20.6)	**–**	(536)	**–**	(571)
Net investment in finance leases	**83,297**	31,151	**93,496**	31,920
20.6 Movement in Provision for Lease Rentals Receivable				
Balance at 1 January	**12,389**	12,579	**286,426**	326,868
Amount recovered/Written back on account provisions previously made	**(2,890)**	–	**(2,890)**	(750)
Adjustments/Reclassification	**–**	(190)	**59,453**	6,948
Amount written-off	**–**	–	**(8,693)**	(132,951)
Provisions made during the year	**39**	–	**113,070**	86,311
Balance at 31 December	**9,538**	12,389	**447,366**	286,426
20.7 Movement in Provision for Bills of Exchange, Loans & Advances, Foreclosed Properties and Lease Rentals Receivable				
Balance at 1 January	**10,380,159**	10,311,947	**10,780,841**	10,733,500
Adjustments for difference due to currency conversion	**102,045**	206,325	**102,045**	206,325
	10,482,204	10,518,272	**10,882,886**	10,939,825
Amount recovered/written back on account of provisions previously made	**(1,285,643)**	(1,842,480)	**(1,294,013)**	(1,852,757)
Amount reversed due to loans written-off	**(1,540,124)**	(69,744)	**(1,548,817)**	(202,695)
Reclassifications/transfers	**86,601**	404,753	**90,115**	431,855
Provision for loan losses (Note 9): Specific	**709,857**	878,856	**813,749**	974,112
General	**461,379**	490,502	**461,379**	490,502
Balance at 31 December	**8,914,274**	10,380,159	**9,405,299**	10,780,842

As at 31st December	Bank 2007 Rs. '000	%	Bank 2006 Rs. '000	%	Group 2007 Rs. '000	%	Group 2006 Rs. '000	%
20. LOANS AND ADVANCES TO CUSTOMERS *(CONTD...)*								
20.8 Non-Performing Loans & Advances								
Bills of exchange	**367,764**		573,506		**472,714**		573,506	
Loans & advances	**10,644,950**		11,937,628		**10,763,113**		12,788,217	
Foreclosed properties	**312,369**		1,076,374		**312,369**		1,183,159	
Lease rentals receivable	**9,220**		15,301		**324,083**		381,901	
Total non-performing advances	**11,334,303**	**3.89 ***	13,602,809	5.82 *	**11,872,279**	**3.97 ***	14,926,783	6.20 *
(Net of interest in suspense)								
Less : Provision for loan losses								
Provision for bills of exchange	**298,862**		298,661		**573,009**		298,707	
Provision for loans & advances	**7,142,207**		9,067,814		**8,616,829**		10,153,270	
Provision for foreclosed properties	**39,733**		42,439		**39,733**		42,439	
Provision for lease rentals receivable	**9,538**		12,389		**9,538**		286,426	
Total provision for loans & advances	**7,490,340**	**2.57 ***	**9,421,303**	4.42 *	**9,239,109**	**3.09 ***	**10,780,842**	4.45 *
Net exposure	**3,843,963**	**1.32 ***	**4,181,506**	1.79 *	**2,633,170**	**0.88 ***	**4,145,941**	1.72 *

* Note: As a percentage of total gross loans & advances (Net of interest in suspense)

The Bank's net exposure on non-performing advances amounting to Rs. 3,844 million as at 31 December 2007 (2006 - Rs. 4,182 million) is covered by securities valued at Rs. 11,602 million (2006 - Rs. 3,860 million).

20.9 Credit Concentration - Geographic Sector Risk Concentrations

Geographic sector risk concentrations within the customer loan portfolio were as follows:

As at 31 December	Bank 2007 Rs. '000	%	Bank 2006 Rs. '000	%	Group 2007 Rs. '000	%	Group 2006 Rs. '000	%
Sri Lanka	**286,576,059**	**98.4**	230,079,784	98.5	**294,343,441**	**98.4**	237,325,520	98.5
United Kingdom	**206,743**	**0.1**	150,002	0.1	**206,743**	**0.1**	150,002	0.1
Republic of Maldives	**3,006,764**	**1.0**	1,678,054	0.7	**3,006,764**	**1.0**	1,678,054	0.7
India	**1,571,505**	**0.5**	1,709,762	0.7	**1,571,505**	**0.5**	1,709,762	0.7
	291,361,071	**100.0**	233,617,602	100.0	**299,128,453**	**100.0**	240,863,338	100.0

20. LOANS AND ADVANCES TO CUSTOMERS *(CONTD...)*

20.10 Credit Concentration - Economic Sector Risk Concentrations

Economic sector risk concentrations within the customer loan portfolio were as follows:

As at 31 December	Bank				Group			
	2007		2006		**2007**		2006	
	Rs. '000	%	Rs. '000	%	**Rs. '000**	%	Rs. '000	%
Exports and imports	**34,918,475**	**13**	20,621,619	9	**35,074,559**	**13**	21,261,206	9
Wholesale and retail trade	**27,461,896**	**9**	17,968,506	8	**28,288,015**	**9**	18,525,806	8
Banking, finance and insurance	**10,072,004**	**3**	8,267,124	4	**10,374,994**	**3**	8,523,532	4
Agriculture and fisheries	**5,834,842**	**2**	4,525,198	2	**6,010,368**	**2**	4,665,549	2
Manufacturing	**25,325,985**	**9**	7,848,594	3	**26,087,850**	**9**	8,092,021	3
Hotels, travels and services	**11,023,092**	**4**	7,520,264	3	**11,354,691**	**4**	7,753,507	3
Housing, construction & property development	**26,405,834**	**9**	19,530,326	8	**27,106,483**	**9**	20,062,666	8
Consumption and others	**150,006,574**	**51**	146,259,597	63	**154,519,124**	**51**	150,795,892	63
Foreclosed properties	**312,369**	**–**	1,076,374	–	**312,369**	**–**	1,183,159	–
Gross loans & advances	**291,361,071**	**100**	233,617,602	100	**299,128,453**	**100**	240,863,338	100

21. GOVERNMENT OF SRI LANKA RESTRUCTURING BONDS

Date Issued	Description	**2007** **Rs. '000**	2006 Rs. '000	Interest Rate	Date of Maturity
24.03.1993	For recapitalisation purposes	**4,780,000**	4,780,000	12%	24.03.2023
24.03.1993	For settlement of loans	**3,767,000**	3,767,000	12%	24.03.2023
	Total	**8,547,000**	8,547,000		

As at 31 December	Bank		Group	
	2007 **Rs. '000**	2006 Rs. '000	**2007** **Rs. '000**	2006 Rs. '000
22. INVESTMENT SECURITIES				
Listed equity securities [Note 22 (a)]	**953,162**	1,032,031	**1,166,451**	1,245,321
Unlisted equity securities [Note 22 (b)]	**101,325**	96,325	**101,370**	96,369
Unlisted preference shares [Note 22 (c)]	**50,000**	50,000	**50,000**	50,000
Units in unit trusts [Note 22 (d)]	**1,018,476**	912,524	**1,018,476**	912,524
Other securities [Note 22(e)]	**238,539**	289,097	**238,539**	294,305
	2,361,502	2,379,977	**2,574,836**	2,598,519

As at 31 December	**2007**			2006		
	No. of ordinary shares *	**Cost of investment Rs. '000**	**Market value Rs. '000**	No. of ordinary shares *	Cost of investment Rs. '000	Market value Rs. '000
22. INVESTMENT SECURITIES - BANK						
(a) Listed Equity Securities						
DFCC Bank Limited	**6,339,998**	**261,300**	**805,180**	12,679,999	340,169	2,276,060
National Development Bank PLC	**8,185,538**	**691,862**	**1,381,310**	8,185,538	691,862	1,641,200
		953,162	**2,186,490**		1,032,031	3,917,260

As at 31 December	**2007** No. of ordinary shares *	**2007** Cost of investment Rs. '000	**2007** Directors' valuation Rs. '000	2006 No. of ordinary shares *	2006 Cost of investment Rs. '000	2006 Directors' valuation Rs. '000
22. INVESTMENT SECURITIES - BANK *(CONTD...)*						
(b) Unlisted Equity Securities						
Credit Information Bureau (Rs. 100/-)	**27,000**	**2,700**	**2,700**	27,000	2,700	2,700
Lanka Financial Services Bureau Limited	**500,000**	**5,000**	**5,000**	–	–	–
Fitch Ratings Lanka Limited	**62,500**	**625**	**625**	62,500	625	625
Lanka Clear (Private) Limited	**2,100,000**	**21,000**	**21,000**	2,100,000	21,000	21,000
Megpek Exports Limited	**300,000**	**4,355**	**–**	300,000	4,355	–
Serendib Coconut Products Limited	**37,500**	**375**	**–**	37,500	375	–
Rajarata Development Bank	**1,298,448**	**12,000**	**12,000**	1,200,000	12,000	12,000
Kandurata Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
Kandy Textile Industries Limited	**191,790**	**1,918**	**–**	191,790	1,918	–
Ruhunu Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
Wayamba Development Bank	**1,320,000**	**12,000**	**12,000**	1,320,000	12,000	12,000
Sabaragamuwa Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
Uva Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
		107,973	**101,325**		102,973	96,325
Provision for diminution in value		**(6,648)**	**–**		(6,648)	–
		101,325	**101,325**		96,325	96,325

As at 31 December	**2007** No. of preference shares *	**2007** Cost of investment Rs. '000	**2007** Directors' valuation Rs. '000	2006 No. of preference shares *	2006 Cost of investment Rs. '000	2006 Directors' valuation Rs. '000
(c) Unlisted Preference Shares						
Carson Cumberbatch PLC 14.75%	**5,000,000**	**50,000**	**50,000**	5,000,000	50,000	50,000
		50,000	**50,000**		50,000	50,000
Provision for diminution in value		**–**	**–**		–	–
		50,000	**50,000**		50,000	50,000

As at 31 December	**2007** No. of units	**2007** Cost of investment Rs. '000	**2007** Manager's valuation Rs. '000	2006 No. of units	2006 Cost of investment Rs. '000	2006 Manager's valuation Rs. '000
22. INVESTMENT SECURITIES - BANK *(CONTD...)*						
(d) Units in Unit Trusts						
Ceybank Unit Trust	**80,824,548**	**895,067**	**1,137,201**	73,731,564	797,376	1,125,881
Ceybank Unit Trust - Seed Fund	**4,421,052**	**42,000**	**62,204**	4,421,052	42,000	67,510
Ceybank Century Growth Fund	**7,004,655**	**81,409**	**142,335**	6,608,643	73,148	150,941
		1,018,476	**1,341,740**		912,524	1,344,332
Provision for diminution in value		**–**	**–**		–	–
		1,018,476	**1,341,740**		912,524	1,344,332

As at 31 December	**2007** No. of Securities/ debentures	**2007** Cost of investment Rs. '000	**2007** Market value Rs. '000	2006 No. of Securities/ debentures	2006 Cost of investment Rs. '000	2006 Market value Rs. '000
(e) Other Securities						
Asset securitisation bond						
- HDFC Bank Limited		**118,539**	**118,539**		169,097	169,097
Investment in debentures						
- HDFC Bank Limited	**750,000**	**75,000**	**75,000**	750,000	75,000	75,000
- Singer (Sri Lanka) Limited	**450,000**	**45,000**	**45,000**	450,000	45,000	45,000
Total other securities		**238,539**	**238,539**		289,097	289,097
Aggregate value of investment securities		**2,361,502**	**3,918,094**		2,379,977	5,697,014

* Note: The par value of all shares, if not specifically mentioned is Rs. 10/= and paid in full.

As at 31 December	**2007** No. of ordinary shares *	**2007** Cost of investment Rs. '000	**2007** Market value Rs. '000	2006 No. of ordinary shares *	2006 Cost of investment Rs. '000	2006 Market value Rs. '000
22. INVESTMENT SECURITIES - GROUP						
(a) Listed Equity Securities						
DFCC Bank Limited	**12,679,999**	**261,299**	**1,610,360**	12,679,999	340,169	2,276,060
National Development Bank PLC	**8,185,538**	**691,862**	**1,381,310**	8,185,538	691,862	1,641,200
Lanka Hospital Corp (Private) Limited	**21,329,000**	**213,290**	**554,554**	21,329,000	213,290	554,554
		1,166,451	**3,546,224**		1,245,321	4,471,814
Provision for diminution in value		**–**	**–**		–	–
		1,166,451	**3,546,224**		1,245,321	4,471,814

As at 31 December	2007 No. of ordinary shares *	2007 Cost of investment Rs. '000	2007 Directors' valuation Rs. '000	2006 No. of ordinary shares *	2006 Cost of investment Rs. '000	2006 Directors' valuation Rs. '000
22. INVESTMENT SECURITIES - GROUP *(CONTD...)*						
(b) Unlisted Equity Securities						
Credit Information Bureau (Rs. 100/-)	**27,300**	**2,744**	**2,744**	27,430	2,743	2,743
Lanka Financial Services Bureau Limited	**500,000**	**5,000**	**5,000**	–	–	–
Fitch Ratings Lanka Limited	**62,500**	**625**	**625**	62,500	625	625
Lanka Clear (Private) Limited	**2,100,000**	**21,000**	**21,000**	2,100,000	21,000	21,000
Megpek Export Limited	**300,000**	**4,355**	**–**	300,000	4,355	–
Serendib Coconut Products Limited	**37,500**	**375**	**–**	37,500	375	–
Rajarata Development Bank	**1,298,448**	**12,000**	**12,000**	1,200,000	12,000	12,000
Kandurata Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
Kandy Textile Industries Limited	**191,790**	**1,918**	**–**	191,790	1,918	–
Ruhunu Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
Wayamba Development Bank	**1,320,000**	**12,000**	**12,000**	1,320,000	12,000	12,000
Sabaragamuwa Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
Uva Development Bank	**1,200,000**	**12,000**	**12,000**	1,200,000	12,000	12,000
Professional Consultants (Private) Limited	**10**	**1**	**1**	10	1	1
		108,018	**101,370**		103,017	96,369
Provision for diminution in value		**(6,648)**	**–**		(6,648)	–
		101,370	**101,370**		96,369	96,369

As at 31 December	2007 No. of preference shares *	2007 Cost of investment Rs. '000	2007 Directors' valuation Rs. '000	2006 No. of preference shares *	2006 Cost of investment Rs. '000	2006 Directors' valuation Rs. '000
(c) Unlisted Preference Shares						
Carson Cumberbatch PLC 14.75%	**5,000,000**	**50,000**	**50,000**	5,000,000	50,000	50,000
		50,000	**50,000**		50,000	50,000
Provision for diminution in value		**–**	**–**		–	–
		50,000	**50,000**		50,000	50,000

As at 31 December	2007 No. of units	2007 Cost of investment Rs. '000	2007 Manager's valuation Rs. '000	2006 No. of units	2006 Cost of investment Rs. '000	2006 Manager's valuation Rs. '000
(d) Units in Unit Trusts						
Ceybank Unit Trust	**73,731,564**	**895,067**	**1,125,881**	73,731,564	797,376	1,125,881
Ceybank Unit Trust - Seed Fund	**4,421,052**	**42,000**	**67,509**	4,421,052	42,000	67,509
Ceybank Century Growth Fund	**6,608,643**	**81,409**	**150,941**	6,608,643	73,148	150,941
		1,018,476	**1,344,331**		912,524	1,344,331
Less: Provision for diminution in value		**–**	**–**		–	–
		1,018,476	**1,344,331**		912,524	1,344,331

As at 31 December	**2007** No. of securities/ debentures	**2007** Cost of investment Rs. '000	**2007** Market value Rs. '000	2006 No. of securities/ debentures	2006 Cost of investment Rs. '000	2006 Market value Rs. '000
22. INVESTMENT SECURITIES - GROUP *(CONTD...)*						
(e) Other Securities						
Asset securitisation bond						
- HDFC Bank Limited		**118,539**	**118,539**		169,097	169,097
Debentures						
- Singer (Sri Lanka) Limited	**750,000**	**75,000**	**75,000**	750,000	75,000	75,000
- HDFC Bank Limited	**450,000**	**45,000**	**45,000**	450,000	45,000	45,000
Other Investment					5,208	5,208
Total other securities		**238,539**	**238,539**		294,305	294,305
Aggregate value of investment securities		**2,574,836**	**5,280,464**		2,598,519	6,256,819

* Note: The par value of all shares, if not specifically mentioned is Rs.10/- and paid in full.

As at 31 December	Bank **2007** Rs. '000	Bank 2006 Rs. '000	Group **2007** Rs. '000	Group 2006 Rs. '000
23. INVESTMENT PROPERTIES				
Cost				
Balance at 1 January	**1,149,910**	1,149,910	**1,149,910**	1,149,910
Additions	**–**	–	**315,761**	–
Adjustments	**–**	–	**151,973**	–
Disposals during 2007	**(526,290)**	–	**(529,779)**	–
Balance at 31 December	**623,620**	1,149,910	**1,087,865**	1,149,910
Less : Accumulated Depreciation				
Balance at 1 January	**62,286**	35,833	**62,286**	35,833
Charge for the year	**28,748**	31,043	**30,156**	31,043
Adjustments	**28,748**	–	**28,748**	–
Released on disposal	**(54,822)**	(4,590)	**(54,822)**	(4,590)
Balance at 31 December	**64,960**	62,286	**66,368**	62,286
Net investment properties	**558,660**	1,087,624	**1,021,497**	1,087,624

The investment properties are accounted for under cost model and accordingly properties are carried at its cost less accumulated depreciation and impairment losses.

The investment properties were valued at Rs.1,385.2 million by an independent professional valuer. The valuation was carried out by a qualified Chartered Valuer on 18 October 2006 on the basis of open market value of existing use. It is confirmed that there had been no material change in valuation as at 31 December 2007.

As at 31 December	Principal activity	% Holding *	Bank Cost **2007 Rs. '000**	Bank Cost 2006 Rs. '000	Group Equity Value **2007 Rs. '000**	Group Equity Value 2006 Rs. '000
24. INVESTMENTS IN ASSOCIATE COMPANIES						
Unquoted						
Transnational Lanka Records Solutions (Pvt) Limited (2,000,000 ordinary shares of Rs.10/- each fully paid)	Data warehousing	25	**20,000**	20,000	**29,993**	22,327
The Unit Trust Management Company (Pvt) Limited (500,000 ordinary shares of Rs.10/- each fully paid)	Fund management	20	**5,000**	5,000	**16,833**	14,879
Southern Development Financial Company Limited (Formally known as Ruhuna Venture Capital Limited) (2,500,000 ordinary shares of Rs.10/- each fully paid)	Venture capital funding	42	**25,000**	25,000	**3,302**	3,666
Mireka Capital Land (Private) Limited (75,000,000 ordinary shares of Rs.10/- each fully paid) (40,800,000 ordinary shares of Rs. 10/- each fully paid 2005)	Property development	40	**750,000**	750,000	**801,217**	741,905
Lanka Securities (Private) Limited (2,796,000 Ordinary shares of Rs.10/- each fully paid)	Stock broking	42 *	**41,940**	13,980	**82,410**	49,139
Total investment in associate companies			**841,940**	813,980	**933,755**	831,916
Provision for diminution in value			**(22,300)**	(21,500)		
Net investment in associate companies			**819,640**	792,480	**933,755**	831,916

* The % holding in associates includes indirect holdings as well.

24. (a) Movement in Investments in Associate Companies				
Value at 1 January	**792,480**	1,256,110	**831,916**	1,245,027
Increase/(Decrease) in investment	**27,960**	–	**27,960**	–
Re-transfer to dealing securities	**–**	(463,630)	**–**	(412,485)
Provision for diminution in value	**(800)**	–	**–**	–
Share of profit/(loss) net of taxes & dividends	**–**	–	**73,879**	(626)
Value at 31 December	**819,640**	792,480	**933,755**	831,916

As at 31 December	Principal activity	% Holding *	2007 Cost Rs. '000	2007 Market Value/ Directors' value Rs. '000	2006 Cost Rs. '000	2006 Market Value/ Directors' value Rs. '000
25. INVESTMENTS IN SUBSIDIARY COMPANIES						
Quoted						
Property Development PLC (61,485,050 Ordinary Shares of Rs.10/- each fully paid)	Property development	93	**740,070**	**2,075,120**	740,070	2,182,719
Merchant Bank of Sri Lanka PLC (68,400,000 Ordinary Shares of Rs.10/- each fully paid)	Merchant Banking	76	**1,774,730**	**957,600**	1,774,730	1,043,100
Unquoted						
BoC Management & Support Services (Private) Limited (100,000 Ordinary Shares of Rs.10/- each fully paid)	Management services	100	**1,000**	**1,000**	1,000	1,000
BoC Property Development & Management (Private) Limited (101,000,000 Ordinary Shares of Rs.10/- each fully paid)	Property development	100	**1,010,000**	**1,010,000**	1,010,000	1,010,000
Capital pending allotment			**46,900**	**46,900**	96,900	96,900
BoC Travels (Private) Limited (250,000 Ordinary Shares of Rs.10/- each fully paid)	Travel related services	100	**2,500**	**2,500**	2,500	2,500
Hotels Colombo (1963) Limited (73,669 Ordinary Shares of Rs.10/- each fully paid)	Hotel operations	98	**737**	**737**	737	737
Merchant Credit of Sri Lanka Limited (4,900,018 Ordinary Shares of Rs.10/- each fully paid)	Finance	88 *	**22,047**	**22,047**	22,047	22,047
Ceylease Financial Services Limited (5,000,000 Ordinary Shares of Rs.10/- each fully paid)	Leasing	50	**50,000**	**50,000**	50,000	50,000
Ceybank Holiday Homes (Private) Limited	Maintaining Ceybanks rests	100 *	**–**	**–**	–	–
Total investment in subsidiary companies			**3,647,984**	**4,165,904**	3,697,984	4,409,003
Provision for diminution in value			**(817,130)**	**–**	(778,530)	–
Net investment in subsidiary companies			**2,830,854**	**4,165,904**	2,919,454	4,409,003

* The % holding in subsidiaries includes indirect holdings as well.

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
26. OTHER ASSETS				
Accrued interest and other receivables	**5,745,162**	4,319,273	**6,139,750**	4,362,953
Consumable stock in hand	**297,589**	182,927	**331,284**	264,279
Foreign cheques purchased	**228,153**	300,121	**228,153**	300,121
Local cheques purchased	**2,450,065**	2,887,358	**2,450,065**	2,887,358
Tax paid in advance	**340,843**	235,503	**349,222**	245,344
Other assets	**7,620,607**	4,002,303	**7,747,382**	4,412,423
	16,682,419	11,927,485	**17,245,856**	12,472,478

27. DEFERRED TAX ASSETS

Deferred tax liability is calculated on all temporary differences under the liability method using a principle tax rate of 35% (2006: 35%). The deferred tax assets arising on the general provisions exceed the temporary difference on accelerated capital allowances on property, plant & equipment and assets leased to customers. The deferred tax assets arises from general provision has been fully recognised at Balance Sheet date. The management is of the view that the deferred tax assets arising from general provision could be reversed in the future period. This will also present the effective tax liability correctly in the Financial Statements. The net deferred tax assets has been recognised in the Financial Statements of the Bank as assets, as there is a certainty of their recoverability within a reasonable period.

The movement of the deferred tax assets is as follows:

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
Balance at 1 January	**236,433**	703,557	**162,288**	634,985
Charged to Income Statement (Note 12)	**(176,727)**	(467,124)	**(188,845)**	(472,697)
Balance as at 31 December	**59,706**	236,433	**(26,557)**	162,288

The details of deferred tax assets & liabilities are given below:

As at 31 December	**2007** Temporary Difference Rs. '000	**2007** Tax Liability Rs. '000	2006 Temporary Difference Rs. '000	2006 Tax Liability Rs. '000
Deferred Tax assets/(liability) for Bank				
Deferred tax assets	**1,368,502**	**478,976**	1,608,778	563,072
Deferred tax liability	**(1,197,913)**	**(419,270)**	(933,255)	(326,639)
Net deferred tax assets	**170,589**	**59,706**	675,523	236,433
Deferred Tax assets/ (liability) for Group				
Deferred tax assets	**1,596,369**	**558,729**	1,608,778	563,072
Deferred tax liability	**(1,672,247)**	**(585,286)**	(1,145,098)	(400,784)
Net deferred tax assets	**(75,878)**	**(26,557)**	463,680	162,288

As at 31 December	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
28. GROUP BALANCES RECEIVABLE				
Merchant Bank of Sri Lanka PLC	**485,686**	133,836		
Hotels Colombo (1963) Limited	**65,392**	38,934	**–**	–
Merchant Credit of Sri Lanka Limited	**61,947**	61,530	**–**	–
Property Development PLC	**152,597**	206,455	**–**	–
Ceylease Financial Services Limited	**813,504**	673,703	**–**	–
Transnational Lanka Records Solutions (Private) Limited	**–**	3,257	**–**	3,257
Mireka Capital Land (Private) Limited	**688,307**	606,228	**688,307**	606,228
	2,267,433	1,723,943	**688,307**	609,485

As at 31 December	Freehold property Rs. '000	Leasehold property Rs. '000	Equipment Rs. '000	Motor vehicles Rs. '000	**2007 Total Rs. '000**	2006 Total Rs. '000
29. PROPERTY, PLANT & EQUIPMENT						
Bank						
Cost or Valuation						
As at 1 January (as previously reported)	3,198,113	607,561	5,265,723	257,189	**9,328,586**	9,084,616
Change in accounting policies	–	–	–	–	**–**	(625,321)
As at 1 January (re-stated)	3,198,113	607,561	5,265,723	257,189	**9,328,586**	8,459,295
Additions	36,782	28,382	497,334	14,734	**577,232**	815,955
Disposals	–	–	(30,980)	(3,725)	**(34,705)**	(49,127)
Exchange rate adjustments	13,772	–	7,707	463	**21,942**	107,207
Transfers/ adjustments	10,439	–	(34,385)	–	**(23,946)**	(4,744)
As at 31 December	3,259,106	635,943	5,705,399	268,661	**9,869,109**	9,328,586
Accumulated Depreciation						
As at 1 January (as previously reported)	245,868	269,853	3,519,645	205,073	**4,240,439**	3,896,760
Change in accounting policies	–	–	–	–	**–**	(158,310)
As at 1 January (re-stated)	245,868	269,853	3,519,645	205,073	**4,240,439**	3,738,450
Charge for the year	43,108	23,462	451,310	19,347	**537,227**	526,149
Disposals	–	–	(30,779)	(3,725)	**(34,504)**	(48,147)
Exchange rate adjustments	1,102	–	6,574	450	**8,126**	23,987
Transfers/adjustments	–	–	3,773	–	**3,773**	–
As at 31 December	290,078	293,315	3,950,523	221,145	**4,755,061**	4,240,439
Capital work in progress (a)					**12,740**	55,784
Net book value at 2007	2,969,028	342,628	1,754,876	47,516	**5,114,048**	–
Net book value at 2006	2,952,245	337,708	1,746,078	52,116	**–**	5,088,147
					5,126,788	5,143,931

As at 31 December	Freehold property Rs. '000	Leasehold property Rs. '000	Equipment Rs. '000	Motor vehicles Rs. '000	**2007 Total Rs. '000**	2006 Total Rs. '000
29. PROPERTY, PLANT & EQUIPMENT *(CONTD...)*						
Group						
Cost or Valuation						
As at 1 January (as previously reported)	5,035,722	670,188	6,119,820	290,204	**12,115,934**	11,810,183
Change in accounting policies	–	–	–	–	**–**	(642,265)
As at 1 January (re-stated)	5,035,722	670,188	6,119,820	290,204	**12,115,934**	11,167,918
Additions	36,943	28,382	517,147	33,294	**615,766**	819,952
Disposals	–	–	(52,130)	(8,120)	**(60,250)**	(49,127)
Exchange rate adjustments	13,772	–	7,707	463	**21,942**	107,206
Transfers/ adjustments	17,323	(14,734)	(46,785)	(1,629)	**(45,825)**	69,985
As at 31 December	5,103,760	683,836	6,545,759	314,212	**12,647,567**	12,115,934
Accumulated Depreciation						
As at 1 January (as previously reported)	742,749	339,110	4,298,968	225,690	**5,606,517**	5,160,888
Change in accounting policies	–	–	–	–	**–**	(172,936)
As at 1 January (re-stated)	742,749	339,110	4,298,968	225,690	**5,606,517**	4,987,952
Charge for the year	82,188	24,819	494,220	26,661	**627,888**	642,724
Disposals	–	–	(46,240)	(7,727)	**(53,967)**	(48,147)
Exchange rate adjustments	1,102	–	6,574	450	**8,126**	23,988
Transfers/adjustments	39	(69,257)	34,531	(403)	**(35,090)**	–
As at 31 December	826,078	294,672	4,788,053	244,671	**6,153,474**	5,606,517
Capital work in progress (a)					**127,723**	55,784
Net book value at 2007	4,277,682	389,164	1,757,706	69,541	**6,494,093**	–
Net book value at 2006	4,292,973	331,078	1,820,852	64,514	**–**	6,509,417
					6,621,816	6,565,201

(a) Capital work in progress which is accounted for on the basis of value of work certified includes mobilisation of advances and other construction expenses.

(b) No property, plant & equipment have been pledged as security for any liability.

(c) The amount of commitments for the acquisition of property, plant and equipment is given in the Note No. 41 (a).

(d) The cost of fully depreciated assets at the Balance Sheet date that are still in use amounted to Rs. 1,369 million (2006 - Rs. 1,282 million).

(e) The market value of land does not differ substantially from the book value.

(f) A proportion of freehold properties were revalued by professionally qualified independent valuers based on open market value of existing use. The Bank is making arrangement to revalue all freehold properties over a period of five years. The surpluses arising on the revaluation have been directly credited to the revaluation reserve of the bank. Based on the revaluations completed up to the date of the Balance Sheet, the surplus on revaluation amounted to Rs. 2,057 million.

29. PROPERTY, PLANT & EQUIPMENT *(CONTD...)*

The carrying amount of the freehold properties, if they were carried at cost less accumulated depreciation are as follows:

As at 31 December	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Cost of Freehold Properties				
Land	**43,221**	43,221	**43,371**	43,371
Building	**703,669**	703,669	**714,869**	714,869
Accumulated depreciation on building	**(307,848)**	(300,340)	**(313,407)**	(305,763)
	439,042	446,550	**444,833**	452,477

30. INTANGIBLE ASSETS

Cost				
Balance at 1 January	**714,802**	625,321	**731,771**	642,265
Additions during the year	**29,615**	89,481	**40,145**	89,506
Disposals/ Reversals	**–**	–	**–**	–
Adjustments	**–**	–	**(308)**	–
Balance at 31 December	**744,417**	714,802	**771,608**	731,771
Accumulated Amortisation				
Balance at 1 January	**294,992**	158,310	**310,993**	172,936
During the year amortisation	**194,762**	136,682	**195,603**	138,057
Reversals	**–**	–	**–**	–
Adjustments	**–**	–	**(151)**	–
Balance at 31 December	**489,754**	294,992	**506,445**	310,993
Net book value	**254,663**	419,810	**265,163**	420,778

Intangible assets represent the value of computer application software systems and subsequent modifications including costs directly attributable in customising for its intended use, and are carried at cost less accumulated amortisation and any impairment losses.

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
31. DEPOSITS FROM CUSTOMERS				
Local Currency Deposits				
Current account deposits	**44,755,807**	47,241,797	**44,755,807**	47,241,797
Savings deposits	**87,379,051**	78,118,360	**87,379,051**	78,118,360
Time deposits	**69,463,522**	44,690,557	**71,276,746**	46,833,351
Certificates of deposit	**58,631**	172,660	**58,631**	172,660
Other deposits	**739,988**	2,159,991	**740,093**	2,160,146
	202,396,999	172,383,365	**204,210,328**	174,526,314
Foreign Currency Deposits				
Current account deposits	**4,387,486**	3,614,575	**4,387,486**	3,614,575
Savings deposits	**39,276,868**	36,887,143	**39,276,868**	36,887,143
Time deposits	**60,413,290**	48,181,421	**60,413,290**	48,181,421
Other deposits	**2,192,723**	1,609,933	**2,192,724**	1,609,933
	106,270,367	90,293,072	**106,270,367**	90,293,072
	308,667,366	262,676,437	**310,480,696**	264,819,386
(a) Analysis of Deposits				
Deposits from banks	**559,522**	507,532	**559,522**	507,532
Deposits from finance companies	**188,345**	172,821	**188,345**	172,821
Deposits from other customers	**307,919,499**	261,996,084	**309,732,829**	264,139,033
	308,667,366	262,676,437	**310,480,696**	264,819,386

Note: The maturity analysis of deposits is given in Note No. 44.

32. DEBT SECURITIES IN ISSUE				
Securities sold under repurchase agreements (Note 32 a)	**47,702,491**	47,047,124	**47,702,491**	47,047,124
Debentures (Note 32 c)	**6,700,000**	1,200,000	**8,126,260**	2,649,350
	54,402,491	48,247,124	**55,828,751**	49,696,474

(a) The securities sold under repurchase agreements are debt securities issued by the Bank for short-term funding purposes and mature within a period of less than twelve months. The interest rate for such securities varied from 8.53% to 42.00% during the year (2006 - 8.53% to 13.25%).

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
(b) Maturity of Debt Securities in Issue				
Not later than 1 year	**47,702,491**	47,047,124	**47,865,841**	47,137,124
Later than one year and not later than 5 years	**6,700,000**	1,200,000	**7,962,910**	2,559,350
	54,402,491	48,247,124	**55,828,751**	49,696,474

32. DEBT SECURITIES IN ISSUE *(CONTD...)*

(c) The Bank has issued unsecured, redeemable debentures to the value of Rs. 6,700 million as at 31.12.2007 (Rs. 1,200 million in 2006) as private placements to meet short-term liquidity mismatches. The interest rate for debenture issued varied from 11.94% to 19.73% during the year (2006 - 8.50% to 13.50%).

The movement in debentures issued were as follows:

As at 31 December	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Movement in Debentures				
Balance as at 01 January	**1,200,000**	5,500,000	**2,649,350**	7,080,600
Issued during the year	**5,500,000**	1,200,000	**5,566,910**	1,275,000
Redemptions	**–**	(5,500,000)	**(90,000)**	(5,706,250)
Balance as at 31 December	**6,700,000**	1,200,000	**8,126,260**	2,649,350

33. OTHER BORROWED FUNDS

Refinance borrowings	**3,438,482**	2,885,889	**3,438,482**	2,885,889
Placements and call money borrowings	**32,630,848**	31,172,715	**32,865,430**	31,183,139
Long/Short term loan	**–**	–	**1,491,177**	610,349
	36,069,330	34,058,604	**37,795,089**	34,679,377

(a) Maturity of Borrowings

Not later than 1 year	**23,008,146**	33,019,684	**24,108,985**	33,493,032
Later than one year and not later than 5 years	**11,962,417**	763,754	**12,534,766**	911,179
Later than 5 years	**1,098,767**	275,166	**1,151,338**	275,166
	36,069,330	34,058,604	**37,795,089**	34,679,377

34. GROUP BALANCES PAYABLE

BoC Management and Support Services (Private) Limited	**2,064**	1,445	**–**	–
BoC Travels (Private) Limited	**2,795**	7,929	**–**	–
Hotels Colombo (1963) Limited	**85,940**	10,238	**–**	–
Merchant Credit of Sri Lanka Limited	**353,509**	35,095	**–**	–
Property Development PLC	**542,381**	138,114	**–**	–
BoC Property Development and Management (Private) Limited	**86,844**	40,266	**–**	–
Merchant Bank of Sri Lanka PLC	**71**	255	**–**	–
Ceylease Financial Services Limited	**181**	979	**–**	–
Ceybank Holiday Homes (Private) Limited	**2,346**	2,876	**–**	–
The Unit Trust Management Company (Private) Limited	**13,283**	21,316	**13,283**	21,316
Capital Development and Investment Company Limited	**–**	6,844	**–**	6,844
Lanka Securities (Private) Limited	**47,827**	23,000	**47,827**	23,000
Mireka Capital Land (Private) Limited	**6,625**	24,602	**6,625**	24,602
Transnational Lanka Records Solutions (Private) Limited	**2,592**	165	**2,592**	165
Southern Development Financial Company Limited	**124**	154	**124**	154
	1,146,582	313,278	**70,451**	76,081

As at 31st December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
35. OTHER LIABILITIES				
Accrued interest and expenditure	**7,790,491**	6,979,510	**8,079,175**	7,210,669
Cheques sent for clearing	**1,220,515**	1,638,633	**1,220,515**	1,638,633
Provision for gratuities (35.1)	**122,598**	87,594	**205,739**	168,642
Other liabilities	**4,096,367**	3,008,827	**3,924,988**	3,230,130
	13,229,971	11,714,564	**13,430,417**	12,248,074
35.1 Provision for Gratuities				
Balance at 1 January	**87,594**	54,765	**168,642**	103,016
Provision made during the year	**39,292**	35,030	**45,664**	69,582
Payment made during the year	**(4,288)**	(2,201)	**(8,567)**	(3,956)
Balance at 31 December	**122,598**	87,594	**205,739**	168,642

36. SUBORDINATED DEBENTURES

These are unsecured subordinated redeemable debentures issued by the Bank as private placements to the following investors.

The detail of subordinated debentures as at 31 December 2007 are as follows:

Lender	2007 Rs. '000	2006 Rs. '000	Date Issued	Maturity Date	Rate of Interest
National Savings Bank	**200,000**	400,000	24.12.1998	Redemption: Rs. 200 million per annum w.e.f. 24.12.2004 to 24.12.2008	Floating interest rate. Treasury Bill weighted average rate plus 1.5%. p.a., payable semi annually. Effective annual yield for 2007 - 15.80% (2006 - 11.83%)
Sri Lanka Insurance Corporation Limited	**250,000**	250,000	31.12.2003	31.12.2011	Floating interest rate equivalent to 6 months. Treasury Bill weighted average rate plus 1.5%. p.a., payable semi annually. Effective annual yield for 2007 - 16.48% (2006 - 11.88%)
National Savings Bank	**1,000,000**	1,000,000	03.11.2005	03.11.2010	Floating interest rate equivalent to 1 year. Treasury Bill weighted average rate plus 0.7%. p.a., payable semi annually. Effective annual yield for 2007 - 15.08% (2006 - 12.17%)
National Savings Bank	**1,000,000**	1,000,000	27.10.2006	27.10.2011	Floating interest rate equivalent to 1 year. Treasury Bill weighted average rate plus 0.75%. p.a., payable semi annually. Effective annual yield for 2007 - 15.15% (2006 - 10.21%)
	2,450,000	2,650,000			

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
37. STATED CAPITAL				
Authorised				
50,000,000 ordinary shares of Rs. 1,000 /- each	**50,000,000**	50,000,000	**50,000,000**	50,000,000
Issued and fully paid	**4,000,000**	4,000,000	**4,000,000**	4,000,000
Capital pending allotment	**1,000,000**	–	**1,000,000**	–
	5,000,000	4,000,000	**5,000,000**	4,000,000
38. PERMANENT RESERVE FUND				
Balance at 1 January	**2,455,000**	1,915,000	**2,455,000**	1,915,000
Appropriations during the year	**60,000**	540,000	**60,000**	540,000
Balance at 31 December	**2,515,000**	2,455,000	**2,515,000**	2,455,000

The permanent reserve fund is maintained as required by the Bank of Ceylon Ordinance (Chapter 397) whereby the Bank must, out of net profit after taxation but before any dividend is declared, transfer to a reserve a sum equivalent to not less than 20% of such profit until the reserve is equal to 50% of the issued and paid up capital and thereafter, an appropriate amount determined at 2% per annum under the Banking Act until the reserve is equal to the paid up capital.

In order to meet the requirement, an amount of Rs. 60 million was transferred to the reserve during the year (2006 - Rs. 540 million).

The balance in the permanent reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
39. RESERVES				
Revaluation reserve (Note 39.1)	**129,404**	129,404	**182,797**	182,797
Other reserves (Note 39.2)	**1,245,133**	1,029,514	**1,466,796**	1,251,177
	1,374,537	1,158,918	**1,649,593**	1,433,974
39.1 Revaluation Reserve				
Balance at 1 January	**129,404**	129,404	**182,797**	182,797
Transfers/Adjustments	**–**	–	**–**	–
Balance at 31 December	**129,404**	129,404	**182,797**	182,797

The revaluation reserve represents the surpluses arising on the revaluation of freehold properties which are still in use for banking operations. According to the regulatory directives, bank can account for the revaluation surplus every seven years. Revaluation reserve is generally used for the issue of bonus shares or for capital reduction programme.

As at 31 December	Bank 2007 Rs. '000	Bank 2006 Rs. '000	Group 2007 Rs. '000	Group 2006 Rs. '000
39. RESERVES *(CONTD...)*				
39.2 Other Reserves				
Free reserve [Note 39.2.(a)]	**122,404**	122,404	**319,981**	319,981
Net exchange translation adjustment [Note 39.2(b)]	**769,741**	628,572	**769,741**	628,572
Primary dealer special risk reserve [Note 39.2 (c)]	**306,325**	231,875	**306,325**	231,875
Investment fluctuation reserve [Note 39.2 (d)]	**46,663**	46,663	**46,663**	46,663
Other reserves	**–**	–	**24,086**	24,086
	1,245,133	1,029,514	**1,466,796**	1,251,177
39.2(a) Free Reserve				
Balance at 1 January	**122,404**	122,404	**319,981**	319,981
Transfer from retained profit	**–**	–	**–**	–
Balance at 31 December	**122,404**	122,404	**319,981**	319,981

Free reserve has been created for unforeseeable risk and future losses.

39.2(b) Net Exchange Translation Adjustment				
Balance at 1 January	**628,572**	521,403	**628,572**	521,403
Currency translation difference during the year	**141,169**	107,169	**141,169**	107,169
Balance at 31 December	**769,741**	628,572	**769,741**	628,572

This represents the exchange difference arising from translating investments made in the capital of foreign branches, and also exchange differences arising from translation of the results of overseas branches for this year from the average rate to the exchange rate ruling at the year end. If and when the investments in foreign branches are disposed, the exchange gain or loss will be recognised in the Income Statement.

39.2(c) Primary Dealer Special Risk Reserve

According to a direction issued by the Central Bank of Sri Lanka, Primary Dealers are required to transfer a percentage of their profit after tax annually to a special risk reserve in order to strengthen capital base further with developments of the Government securities market.

Accordingly the Bank, which has a separate Primary Dealer Unit, transferred a sum of Rs. 74,450,000/- to a Primary Dealer Special Risk Reserve during the year (Rs. 66,300,000/- in 2006).

39.2(d) Investment Fluctuation Reserve

According to the instructions issued by Reserve Bank of India, the branch in Chennai, India, is required to build up an Investment Fluctuation Reserve amounting to a minimum of 5% of the investment portfolio.

The amount held in this account will be utilised to meet the depreciation requirement on investment in securities. No appropriation has been made during the year (Rs. 24,224,643/- in 2006).

40. COMMITMENTS AND CONTINGENCIES

(a) Contingencies

In the normal course of business, the Bank makes various commitments and incur contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments are quantified below:

As at 31 December	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Acceptances and documentary credits	**73,885,939**	46,315,243	**73,885,939**	46,315,243
Bills for collection	**4,521,310**	3,565,188	**4,521,310**	3,565,188
Forward exchange contracts	**20,987,777**	23,441,109	**20,987,777**	23,441,109
Guarantees	**35,193,902**	32,054,490	**35,193,902**	32,054,490
Other commitments	**123,910**	126,235	**163,110**	163,710
	134,712,838	105,502,265	**134,752,038**	105,539,740

(b) Unutilised Irrevocable Commitments

The unutilised value of irrevocable commitments which cannot be withdrawn at the discretion of the Bank, without risk of incurring significant penalties or expenses approximates to Rs. 11,544 million as at the Balance Sheet date (2006 - Rs. 8,943 million).

(c) Financial Instruments with Off-balance Sheet Risk

In the normal course of business, the Bank enters into contractual agreements involving various types of financial instruments with off-balance sheet risks to accommodate the financial and investment needs of clients, to conduct trading activities, and to manage its own exposures to losses. These financing instruments generate interest or fees and possess elements of credit risk in excess of those amounts recognised as assets and liabilities in the Balance Sheet.

41. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital Commitments

Capital expenditure approved by the Directors for which no provision has been made in the Financial Statements, amounts to:

As at 31 December	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Approved and contracted for	**232,000**	808,729	**232,000**	808,729
Approved and not contracted for	**302,000**	321,153	**302,000**	321,153
	534,000	1,129,882	**534,000**	1,129,882

(b) Operating Lease Commitments

Future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows:

As at 31st December	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Not later than 1 year	**418,656**	157,597	**418,656**	157,597
Later than 1 year and not later than 5 years	**1,988,615**	2,610	**1,988,615**	2,610
	2,407,271	160,207	**2,407,271**	160,207

41. CONTINGENT LIABILITIES AND COMMITMENTS *(CONTD...)*

(c) Litigation

A significant portion of all litigation, arises from lending where borrowers have defaulted. Usually, the Bank endeavours to amicably settle these defaults, failing which it resorts to litigation. The law provides various avenues for borrowers to seek a remedy in Court. Some defaulters make use of these avenues and file cases against the Bank in an effort, either to delay the recovery proceedings or prevent the auctioning of mortgaged properties. Others try to resolve via the Financial Ombudsman, a creation of the banks in Sri Lanka as a dispute resolution office.

With a large number of employees, the Bank also faces labour disputes from time to time which lead to cases at the Labour Tribunal. Routinely these cases are also amicably settled with a few reaching the Tribunal.

We have reviewed all outstanding litigation arising from such defaulted loans and disputed labour relations. We are confident that any litigation arising from them will not sustain a liability that will materially impact the financial stability of the Bank and hence no related provisions have been made.

42. ASSETS PLEDGED AS SECURITY

The securities sold under repurchase agreement are debt securities issued by the Bank and the Group. The details of assets pledged by the Bank and the Group to secure those liabilities are given below:

	Bank		Group	
As at 31 December	**2007**	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Securities sold under repurchase agreements	**47,702,491**	47,047,124	**47,702,491**	47,047,124
	47,702,491	47,047,124	**47,702,491**	47,047,124
Secured by:				
Treasury bills held by the Bank	**14,000,000**	21,000,000	**14,000,000**	21,000,000
Treasury bonds held by the Bank	**32,200,000**	23,000,000	**32,200,000**	23,000,000
Index linked bonds	**7,900,000**	8,000,000	**7,900,000**	8,000,000
	54,100,000	52,000,000	**54,100,000**	52,000,000

43. POST BALANCE SHEET EVENTS

No events have occurred since the Balance Sheet date which would require adjustments to, or disclosure in the Financial Statements.

44. MATURITIES OF ASSETS & LIABILITIES

The table below analyses assets and liabilities in to relevant maturity groupings based on the remaining period at Balance Sheet date to the contractual maturity date.

	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Bank						
Interest Earning Assets						
Treasury bills & other short-term bills	10,156,815	7,779,713	–	–	–	17,936,528
GOSL Treasury bonds	734,070	5,461,332	12,021,955	8,439,409	3,721,479	30,378,245
Dealing securities	3,184,335	–	–	–	–	3,184,335
Securities purchased under agreement to resell	60,000	–	–	–	–	60,000
Placements with and loans to other banks	19,721,881	–	–	–	–	19,721,881
Investments & other assets	971,879	15,099,271	599,762	34,885	8,032,116	24,737,913
Bills of exchange	10,510,079	621,149	–	–	–	11,131,228
Group balances receivable	2,114,836	–	–	–	152,597	2,267,433
Loans and advances	99,879,130	64,499,766	48,647,856	31,335,280	21,044,974	265,407,006
Lease rentals receivable	201,583	573,015	2,418,129	2,632,538	83,297	5,908,562
GOSL - Restructuring bonds	–	–	–	–	8,547,000	8,547,000
	147,534,608	94,034,246	63,687,702	42,442,112	41,581,463	389,280,131
Non-Interest Earnings Assets						
Cash and balance with other banks	9,244,542	–	–	–	–	9,244,542
Balances with Central Banks	12,182,357	4,736,026	262,140	72,578	–	17,253,101
Accrued interest & others	14,589,550	2,092,870	59,706	–	–	16,742,126
Property, plant & equipment	–	–	–	–	5,381,450	5,381,450
	36,016,449	**6,828,896**	**321,846**	**72,578**	**5,381,450**	**48,621,219**
Total assets	**183,551,057**	**100,863,142**	**64,009,548**	**42,514,690**	**46,962,913**	**437,901,350**
Interest Bearing Liabilities						
Deposits	168,805,712	84,730,094	4,689,825	1,298,442	–	259,524,073
Borrowings	12,815,206	10,192,940	9,674,942	2,287,475	1,098,767	36,069,330
Group Balances Payable	1,134,404	12,178	–	–	–	1,146,582
Securities sold under repurchase agreements	44,330,847	3,371,644	–	–	–	47,702,491
Debentures	–	200,000	1,000,000	7,950,000	–	9,150,000
	227,086,168	**98,506,856**	**15,364,767**	**11,535,917**	**1,098,767**	**353,592,476**

	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
44. MATURITIES OF ASSETS & LIABILITIES *(CONTD...)*						
Non-Interest Bearing Liabilities						
Deposits	49,143,293	–	–	–	–	49,143,292
Accrued interest and expenditure	7,790,494	–	–	–	–	7,790,494
Tax payable	–	885,441	–	–	–	885,441
Provision for gratuity	–	–	–	–	122,598	122,598
Other liabilities	4,633,825	683,057	–	–	–	5,316,882
Shareholders' funds	–	–	–	–	21,050,168	21,050,169
	61,567,612	**1,568,498**	**–**	**–**	**21,172,766**	**84,308,876**
Total liabilities	**288,653,780**	**100,075,354**	**15,364,767**	**11,535,917**	**22,271,533**	**437,901,350**
Net liquidity gap - 2007	**(105,102,724)**	**787,790**	**48,644,781**	**30,978,773**	**24,691,380**	**–**
Net liquidity gap - 2006	**(118,162,930)**	**30,058,959**	**46,989,097**	**18,691,866**	**22,423,008**	**–**

Demand & savings deposits have been categorised as up to 3 months maturity group. However, a major part of these deposits represent a core retail deposit base with longer-term maturity.

Bills of exchange, loans and advances and lease rentals receivables are shown net of interest in suspense and provision for bad and doubtful debts.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
44. MATURITIES OF ASSETS & LIABILITIES *(CONTD...)*						
Group						
Interest Earning Assets						
Treasury bills & other short-term bills	10,292,321	7,883,506	–	–	–	18,175,827
GOSL treasury bonds	734,070	5,461,332	12,021,955	8,439,409	3,721,478	30,378,244
Dealing securities	3,249,603	–	–	–	–	3,249,603
Securities purchased under agreement to resell	320,768	–	–	–	–	320,768
Placement with and loans to other banks	19,721,882	–	–	–	–	19,721,882
Investments & other assets	971,879	15,099,271	599,762	34,885	5,991,547	22,697,344
Bills of exchange	10,840,710	621,771	–	–	–	11,462,481
Group balances receivable	688,307	–	–	–	–	688,307
Loans and advances	99,943,736	64,566,413	48,766,962	31,472,987	21,248,314	265,998,412
Lease rental receivable	658,675	1,872,333	4,583,480	4,989,885	157,887	12,262,260
GOSL - Restructuring bonds	–	–	–	–	8,547,000	8,547,000
	147,421,951	**95,504,626**	**65,972,159**	**44,937,166**	**39,666,226**	**393,502,128**
Non-Interest Earning Assets						
Cash and balance with other banks	9,311,000	–	–	–	–	9,311,000
Balances with Central Banks	12,182,357	4,736,027	262,140	72,577	–	17,253,101
Accrued interest & others	15,004,081	2,118,140	123,636	–	–	17,245,856
Property, plant & equipment	–	–	–	–	6,886,979	6,886,979
	36,497,438	**6,854,167**	**385,776**	**72,577**	**6,886,979**	**50,696,936**
Total assets	**183,919,389**	**102,358,793**	**66,357,935**	**45,009,743**	**46,553,205**	**444,199,065**
Interest Bearing Liabilities						
Deposits	169,352,439	85,913,089	4,755,305	1,316,570	–	261,337,403
Borrowings	13,428,357	10,680,628	10,137,845	2,396,921	1,151,338	37,795,089
Group balances payable	70,451	–	–	–	–	70,451
Securities sold under repurchased agreement	44,330,847	3,371,644	–	–	–	47,702,491
Debentures	–	363,350	1,098,750	7,950,000	1,164,160	10,576,260
	227,182,094	**100,328,711**	**15,991,900**	**11,663,491**	**2,315,498**	**357,481,694**
Non-Interest Bearing Liabilities						
Deposits	49,143,293	–	–	–	–	49,143,293
Accrued interest and expenditure	8,079,176	–	–	–	–	8,079,175
Tax payable	–	960,607	–	–	–	960,607
Provision for gratuity	–	–	–	–	205,739	205,739
Other liabilities	4,452,958	692,545	26,558	–	–	5,172,061
Shareholders' funds	–	–	–	–	23,156,495	23,156,495
	61,675,427	**1,653,152**	**26,558**	**–**	**23,362,234**	**86,717,371**
Total liabilities	**288,857,521**	**101,981,863**	**16,018,458**	**11,663,491**	**25,677,733**	**444,199,065**
Net liquidity gap - 2007	**(104,938,129)**	**376,929**	**50,339,478**	**33,346,251**	**20,875,473**	**–**
Net liquidity gap - 2006	**(119,714,097)**	**30,685,519**	**48,612,252**	**20,280,143**	**20,136,183**	**–**

45. DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

1 Dr. G Wickramasinghe, Chairman of Bank of Ceylon is also Chairman of BoC Travels (Private) Limited, Merchant Bank of Sri Lanka PLC, Ceylease Financial Services Limited, Property Development PLC, Merchant Credit of Sri Lanka Limited, Securities & Exchange Commission of Sri Lanka, Insurance Board of Sri Lanka and a Director of Mireka Capital Land (Private) Limited and Managing Director of Informatics Group of Companies.

2 Mr. S Abeysinghe, ex officio Director of Bank of Ceylon is also ex-officio Director of Securities & Exchange Commission of Sri Lanka, Insurance Board of Sri Lanka and Treasury Nominee Director of De La Rue Lanka Limited and a Member of President's Fund.

3 Mr. R Sivaraman, Director of Bank of Ceylon is also a Director of Ceylease Financial Services Limited, Proprietor of Triad Consultants, Chartered Architects & Engineers and Managing Director of Arch-Triad Consultant (Private) Limited and Ram Developers (Private) Limited and a Member of the National Police Commission.

4 Dr. B Kaluarachchi, Director of Bank of Ceylon is also Chairman of Hotels Colombo (1963) Limited and a Director of the Lanka Hospitals Corporation Limited.

5 Mr. G Gallage, Director of Bank of Ceylon is also a Director of Hotels Colombo (1963) Limited.

6 Mr. V Kanagasabapathy, Alternate Director of Bank of Ceylon is also a Director of De La Rue Lanka Currency & Security Print (Private) Limited, Ceylon Petroleum Storage Terminals PLC, Lanka Hydraulic Institute Limited, Association of Accounting Technicians (Professional Association), Hotel Developers PLC, Distance Learning Centre (DLC) and Lanka Industrial Estate Limited.

Note: The amount due from and due to related parties as at 31 December 2007 is set out in the Note 46: Related Party Transactions.

46. RELATED PARTY TRANSACTIONS

In 2007, Bank entered into transactions with its related parties in the ordinary course of its activities including deposits, lending and other banking services. The interest rates, commission and other fees on these transactions are determined on an arm's length basis.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit	Amount O/S as at 31.12.2007 Rs. '000	Security
a (i) Associates					
The Unit Trust Management Company (Pvt) Limited	Mr. B A C Fernando Director	REPO Balance		13,000	
		Current Account		249	
Transnational Lanka Records Solutions (Pvt) Limited	Mr. C Samarasinghe Chairman Mr. I D Weerasena Director	Current Account		1,642	
Mireka Capital Land (Pvt) Limited	Mr. B A C Fernando Director	Term Loans	US$ 4,000,000 (Rs. 437.02 million)	US$ 2,520,000 (Rs. 275.32 million)	Comprehensive Loan Agreement
	Mr. K Dharmasiri Alternate Director		US$ 1,980,000 (Rs. 216.32 million)	US$ 1,980,000 (Rs. 216.32 million)	
			US$ 1,380,000 (Rs. 150.77 million)	US$ 1,380,000 (Rs. 150.77 million)	Fixed Deposit placed by Shing Kwan Investment (Singapore) Pte. Limited
	Mrs. K Kulatunge Alternate Director		US$ 420,000 (Rs. 45.89 million)	US$ 420,000 (Rs. 45.89 million)	
		Current Account		6,625	
Lanka Securities (Pvt) Limited	Mr. K Dharmasiri Director	REPO Balances		45,500	
		Current Account		2,327	
Southern Development Finance Service Limited	Mr. N Wellangoda Director	Savings Account		32	
		Current Account		92	

46. RELATED PARTY TRANSACTIONS *(CONTD...)*

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit	Amount O/S as at 31.12.2007 Rs. '000	Security
a (ii) Subsidiaries					
Merchant Bank of Sri Lanka PLC	Mr. B A C Fernando	Loan & Advances	Rs. 200 million	200,791	Securitisation of lease rental receivables
	Director	Money Market Loan	Rs.100 million	100,000	
		Permanent Overdraft	Rs. 50 million	184,896	Clean
	Ms. W A Nalani	Temporary Overdraft	Rs.150 million		
	Director	Contingencies	Rs.1 million	1,000	Indemnity of Company
		Grant on Immediate credit			
		on cheque limit	Rs. 1 million	–	Indemnity of Company
		Intra day Overdraft	Rs. 5 million	–	Indemnity of Company
		Current Account		71	
Property Development PLC	Mr. B A C Fernando	Letters of Credit	Rs. 5 million	–	Related shipping document
	Director	Current Account		2,558	
	Mrs. K Kulatunge	Rent Paid in Advance		152,597	
	Alternate Director				
Hotels Colombo (1963) Limited	Mr. B A C Fernando	REPO Balance		533,173	
	Director	Fixed Deposit		10,903	
	Mrs. K Kulatunge	Current Account		11,785	
	Alternate Director	Receivables on Electricity		65,392	
BoC Travels (Private) Limited	Mr. B A C Fernando	Current Account		2,795	
	Director				
	Mr. M A Fernando				
	Director				
BoC Management & Support	Mr. B A C Fernando	Current Account		864	
Services (Pvt) Limited	Director	Fixed Deposit		1,200	
	Ms. W A Nalani				
	Director				
	Mr. M T Perera				
	Director				
Ceylease Financial Services	Mr. B A C Fernando	Loans & Advances	Rs. 950 million	425,863	Securitisation of leases rental receivables
Limited	Director	Money Market Loan	Rs. 350 million	350,000	Clean
		Overdraft	Rs. 50 million	37,644	Clean
		Bridging Finance	Rs. 100 million	–	Securitisation of leases rental receivables
		Letter of Guarantee	Rs. 100 million	–	Indemnity of the Company
		Letter of Credit	Rs. 50 million	–	Bills of Exchange
		Indian line of Credit	Rs. 0.72 million	760	Agreement
		Current Account		16	

46. RELATED PARTY TRANSACTIONS *(CONTD...)*

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit	Amount O/S as at 31.12.2007 Rs. '000	Security
Ceybank Holiday Homes (Pvt) Limited	Mr. B A C Fernando	Current Account		2,166	
	Chairman	Fixed Deposit		75	
	Ms. W A Nalani				
	Alternate Director				
	Mr. M A Fernando				
	Director				
	Ms. J Siriwardena				
	Director				
	Mr. R U De S Dharmawicrama				
	Director				
	Mrs. K A D A Premadasa				
	Director				
	Mr. S Liyanwala				
	Director				
Merchant Credit of Sri Lanka Limited	Mr. B A C Fernando	Series of Loan	Rs. 75 million	61,491,791	Securitisation of leases rental receivables
	Director	Permanent Overdraft	Rs. 25 million	–	
	Mr. C Samarasinghe	REPO Balance		210,000	
	Director	Overdraft		455	
	Mr. H M A B Weerasekara	Current Account		143,509	
	Director				
BoC Property Development & Management (Pvt) Limited	Mr. B A C Fernando	REPO Balance		84,860	
	Chairman	Current Account		1,984	
	Mr. M Kiritharan				
	Director				
	Mr. S Liyanwala				
	Director				
	Mrs. D N Wanniarachchi				
	Director				
a (iii) Shareholder					
Government of Sri Lanka	Shareholder	Loans		82,731,720	
		Overdraft		20,979,550	
		Investment in Bonds		10,247,000	
		Deposits		21,343,300	

46. RELATED PARTY TRANSACTIONS *(CONTD...)*

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit	Amount O/S as at 31.12.2007 Rs. '000	Security
a (iv) Other Entities					
Credit Information Bureau of Sri Lanka	Ms. W A Nalani Director	Bank has contributed towards the capital		2,700	Company Shares
Kandurata Development Bank	Mr. D L C Attapattu Director	Bank has contributed towards the capital		12,000	Company Shares
Rajarata Development Bank	Mr. K L Chandrasena Director	Bank has contributed towards the capital		12,000	Company Shares
Ruhuna Development Bank	Mr. N Wellangoda Director	Bank has contributed towards the capital		12,000	Company Shares
Sabaragamuwa Development Bank	Mrs. L W Wijeyasundara Director	Bank has contributed towards the capital		12,000	Company Shares
Wayamba Development Bank	Mr. H M Mudiyanse Director	Bank has contributed towards the capital		12,000	Company Shares
Uva Development Bank	Mrs. R Unawattuna Director	Bank has contributed towards the capital		12,000	Company Shares
Lanka Clear (Pvt) Limited	Mr. B A C Fernando Director	Bank has contributed towards the capital		21,000	Company Shares
Informatics Group of Companies	Dr. G Wicramasinghe Managing Director	Letter of Credit Hypothecation loan Term Loan Letter of Guarantee	Rs. 12 million Rs. 12 million Rs.17.3 million Rs.15 million	527 1,759 13,551 13,559	Shipping Documents, Directors Guarantee Directors Guarantee, Hypothecation Mortgage over property Indemnity of the Directors Counter Indemnity of the Company
Visual Computing Systems (Pvt) Limited	Subsidiary of Informatics Group of Companies	Trust Receipt	–	1,359	Trust receipt agreement Hypothecation limt of Informatics (Pvt) Limited
De La Rue Lanka Securities & Currency (Pvt) Limited	Mr. S Abeysinghe Nominee Director Mr. V Kanagasabapathy Director	Overdraft	Rs. 30 million	14,650	Property
Hotel Developers PLC	Mr. V Kanagasabapathy Director	Term Loan	Rs. 350 million	178,000	Clean

46. RELATED PARTY TRANSACTIONS *(CONTD...)*

b Transactions with Key Management Personnel including Directors

During the year, the Bank provided credit facilities and accepted deposits from key management personnel of the Bank and their close family members and the companies controlled by them or significantly influenced by them. The credit facilities extended and deposits taken were provided in the ordinary cause of the business on the same terms as with persons of similar standing or with other employees.

I Key Management Personnel Compensation

Compensation for key management personnel including amount paid to the Directors are as follows:

	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Short-term employee benefits	**43,388**	37,404	**46,544**	41,601
Post-employment benefits	**18,907**	14,554	**18,907**	14,554
	62,295	51,958	**65,451**	56,155

II Material Transactions with Key Management Personnel

The transactions conducted with key management personnel of the Bank and the parties related to them are as follows:

	Bank		Group	
	2007	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Type of Transaction				
Housing Loans	**10,186**	6,725	**10,186**	6,725
Vehicle Loans	**4,901**	6,190	**4,901**	6,190
Other Loans	**39,501**	30,543	**39,501**	30,543
	54,588	43,458	**54,588**	43,458

	Banking		Leasing		Treasury		Property/Investments		Unallocated		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
47. FINANCIAL REPORTING BY SEGMENT												
(a) Business Segments												
Revenue from External Customers:												
Interest	**30,774,010**	20,546,695	**–**	–	**11,431,087**	7,008,618	**11,956**	6,019	**5,179**	269	**42,222,232**	27,561,601
Exchange	**–**	279,786	**–**	–	**1,178,696**	1,210,030	**–**	–	**–**	–	**1,178,696**	1,489,816
Lease income	**–**	–	**1,861,190**	1,117,362	**–**	–	**–**	–	**–**	–	**1,861,190**	1,117,362
Commissions	**3,114,349**	2,607,179	**–**	–	**–**	–	**–**	–	**8,752**	–	**3,123,101**	2,607,179
Other	**1,995,262**	2,121,732	**6,474**	–	**2,824**	901,879	**1,725,951**	768,728	**202,243**	677,110	**3,932,752**	4,469,449
Total revenue from external customers	**35,883,621**	25,555,392	**1,867,664**	1,117,362	**12,612,607**	9,120,527	**1,737,907**	774,747	**216,174**	677,379	**52,317,971**	37,245,407
Inter-segment revenue	**(1,460,439)**	(889,450)	**–**	–	**1,460,439**	889,450	**–**	–	**–**	–	**–**	–
Total revenue	**34,423,182**	24,665,942	**1,867,664**	1,117,362	**14,073,046**	10,009,977	**1,737,907**	774,747	**216,174**	677,379	**52,317,971**	37,245,407
Segment result	**3,114,306**	3,154,945	**317,503**	189,952	**1,548,035**	1,101,097	**260,686**	85,222	**216,174**	677,379	**5,456,704**	5,208,595
Unallocated expenses											**(352,342)**	(489,238)
Profit from operations											**5,104,362**	4,719,357
Net financing costs											**–**	–
Income from Associates											**74,629**	3,972
Income tax expense											**(1,845,033)**	(1,693,127)
Minority interest											**(90,127)**	(85,126)
Net profit for the year											**3,243,831**	2,945,076
Segment assets	**279,162,797**	247,671,383	**12,213,344**	6,883,628	**99,151,787**	85,823,317	**18,395,607**	15,922,779	**34,341,776**	27,378,305	**443,265,310**	383,679,412
Investment in associates											**933,755**	831,916
Unallocated assets											**–**	–
Total assets	**279,162,797**	247,671,383	**12,213,344**	6,883,628	**99,151,787**	85,823,317	**18,395,607**	15,922,779	**34,341,776**	27,378,305	**444,199,065**	384,511,328
Segment liabilities	**319,554,183**	276,979,393	**–**	–	**42,088,401**	36,480,886	**708,116**	613,772	**58,691,869**	50,872,244	**421,042,570**	364,946,296
Unallocated liabilities												
Total liabilities	**319,554,183**	276,979,393	**–**	–	**42,088,401**	36,480,886	**708,116**	613,772	**58,691,869**	50,872,244	**421,042,570**	364,946,296
Cash flows from operating activities	**(11,987,610)**	(18,371,712)	**(501,693)**	(768,874)	**(3,838,344)**	(5,882,486)	**(333,405)**	(510,963)	**871,447**	1,335,544	**(15,789,605)**	(24,198,491)
Cash flows from investing activities	**3,950,954**	(7,144,801)	**–**	–	**1,265,065**	(2,287,711)	**109,885**	(198,714)	**(797,202)**	1,441,639	**4,528,703**	(8,189,587)
Cash flows from financing activities	**6,956,194**	16,359,432	**–**	–	**2,226,813**	5,236,973	**–**	–	**(17,057)**	(40,114)	**9,165,950**	21,556,291
Capital expenditure	**(707,559)**	(826,770)	**–**	–	**–**	–	**–**	–	**–**	–	**(707,559)**	(826,770)

As at 31st December	Bank 2007 Rs. '000	%	2006 Rs. '000	%	Group 2007 Rs. '000	%	2006 Rs. '000	%
47. FINANCIAL REPORTING BY SEGMENT *(CONTD...)*								
(b) Geographical Segments								
Assets								
Domestic Banking Unit	**279,198,467**	**63**	238,194,623	63	**285,496,182**	**64**	244,407,184	64
Offshore Banking Division	**129,228,853**	**30**	111,830,630	30	**129,228,853**	**29**	111,830,630	29
Offshore Banking Units	**29,474,030**	**7**	28,273,514	7	**29,474,030**	**7**	28,273,514	7
	437,901,350	**100**	378,298,767	100	**444,199,065**	**100**	384,511,328	100
Gross Income								
Domestic Banking Unit	**37,607,463**	**75**	24,805,711	70	**39,765,913**	**77**	26,859,053	72
Offshore Banking Division	**10,200,418**	**20**	8,303,743	24	**10,200,418**	**19**	8,303,743	22
Offshore Banking Units	**2,351,640**	**5**	2,082,611	6	**2,351,640**	**4**	2,082,611	6
	50,159,521	**100**	35,192,065	100	**52,317,971**	**100**	37,245,407	100
Profit Before Tax								
Domestic Banking Unit	**573,542**	**13**	690,176	16	**1,234,066**	**23**	1,275,915	26
Offshore Banking Division	**3,331,118**	**73**	3,161,109	77	**3,331,118**	**65**	3,161,109	68
Offshore Banking Units	**613,807**	**14**	286,305	7	**613,807**	**12**	286,305	6
	4,518,467	**100**	4,137,590	100	**5,178,991**	**100**	4,723,329	100
Profits After Tax								
Domestic Banking Unit	**94,399**	**3**	33,814	2	**585,100**	**18**	436,894	15
Offshore Banking Division	**2,269,609**	**80**	2,443,796	94	**2,269,609**	**68**	2,443,796	82
Offshore Banking Units	**479,249**	**17**	149,512	4	**479,249**	**14**	149,512	3
	2,843,257	**100**	2,627,122	100	**3,333,958**	**100**	3,030,202	100

CAPITAL ADEQUACY - BANK

To monitor the adequacy of its capital the Bank uses ratios established by the Central Bank of Sri Lanka (CBSL). These ratios measure capital adequacy (minimum 10% as required by CBSL) by comparing the bank's eligible capital with its Balance Sheet assets, off Balance Sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 55%, 100%, 110%) are applied; for example cash & Government instruments have a zero risk weighting which means that no capital is required to support the holding of their assets. Loans & advances carry a 110% risk weighting, meaning that it must be supported by capital equal to 11% of the carrying amount.

Off Balance Sheet direct credit substitutes, short-term self-liquidating trade related contingencies and foreign exchange and interest rate contracts are taken into account by applying different categories of credit conversion factors, designed to convert these items into Balance Sheet equivalents. The resulting credit equivalent amount are then weighted for credit risk using the same percentages as for Balance Sheet assets.

Tier 1 capital consists of shareholders' equity. Tier 2 capital includes the bank's eligible subordinated debt instruments, general provision and 50% of revaluation reserves.

The Bank's capital adequacy was as follows:

	Balance Sheet Nominal amount		Risk weighted amount	
	2007	2006	**2007**	2006
	Rs. million	Rs. million	**Rs. million**	Rs. million
Balance Sheet Assets (net of Provisions)				
Cash & other zero rated securities	**100,867**	103,400	**–**	–
Due from other banks	**23,586**	26,871	**4,717**	5,374
Loans and advances to customers	**286,138**	225,920	**110,853**	74,996
Dealing & Investment Securities	**6,998**	5,996	**6,998**	5,996
Cash items in process of collection	**5,919**	4,526	**1,184**	905
Property, plant & equipment	**5,381**	5,514	**5,381**	5,514
Other assets	**7,917**	4,978	**7,917**	4,978
Total assets*	**436,806**	377,205	**137,050**	97,763
Off-Balance Sheet Positions				
Direct credit substitutes	**87,433**	58,050	**22,803**	40,593
Self-liquidating Trade related contingencies	**20,977**	14,438	**14,242**	3,840
Foreign exchange and interest rate contracts	**20,988**	23,441	**420**	469
	129,398	95,929	**37,465**	44,902
Total Credit risk			**174,515**	142,665
Total Market risk			**924**	682

Capital Ratios

	Bank		Bank		CBSL Norm	
	2007	2006	**2007**	2006	**2007**	2006
	Rs. million	Rs. million	**%**	%	**%**	%
Tier 1 capital	**20,920**	17,783	**11.38**	11.90	**5.00**	5.00
Tier 1 + Tier 2 capital	**20,940**	18,382	**11.40**	12.30	**10.00**	10.00

* The investment that have been deducted from the capital base are not included.

CAPITAL ADEQUACY - GROUP

The Group's capital adequacy was as follows:

	Balance sheet Nominal amount		Risk weighted amount	
	2007 Rs. million	2006 Rs. million	**2007 Rs. million**	2006 Rs. million
Balance Sheet Assets (net of Provisions)				
Cash & other zero rated securities	**101,434**	104,575	**–**	–
Due from other banks	**23,586**	26,872	**4,717**	5,374
Loans and advances to customers	**291,835**	231,651	**117,120**	81,410
Dealing & Investment Securities	**6,090**	4,429	**6,090**	4,429
Cash items in process of collection	**5,919**	4,526	**1,184**	905
Property, plant & equipment	**6,887**	6,936	**6,887**	6,936
Other assets	**8,395**	5,447	**8,397**	5,448
Total assets*	**444,146**	384,436	**144,395**	104,502
Off-Balance Sheet Positions				
Direct credit substitutes	**87,433**	58,050	**22,803**	40,593
Self-liquidating Trade related contingencies	**20,977**	14,438	**14,242**	3,840
Foreign exchange and interest rate contracts	**20,988**	23,441	**420**	469
	129,398	95,929	**37,465**	44,902
Total Credit risk			**181,860**	149,404
Total Market risk			**924**	682

Capital Ratios

	Group		Group		CBSL Norm	
	2007 Rs. million	2006 Rs. million	**2007 %**	2006 %	**2007 %**	2006 %
Tier 1 capital	**22,974**	18,951	**12.02**	12.13	**5.00**	5.00
Tier 1 + Tier 2 capital	**24,062**	20,571	**12.59**	13.17	**10.00**	10.00

* The investment that have been deducted from the capital base are not included.

INCOME STATEMENT - US$

For the year ended 31 December	Bank 2007 US$ '000	Bank 2006 US$ '000	Group 2007 US$ '000	Group 2006 US$ '000
Income	**459,105**	325,085	**478,861**	344,053
Interest income	**387,038**	247,778	**403,491**	260,673
Interest expense	**(269,581)**	(145,431)	**(277,818)**	(151,080)
Net interest income	**117,457**	102,347	**125,673**	109,593
Fee and commission income	**28,363**	20,290	**28,585**	20,467
Fee and commission expenses	**(4,833)**	(3,753)	**(4,833)**	(3,753)
Net fee and commission income	**23,530**	16,537	**23,752**	16,714
Foreign exchange profit	**10,788**	20,890	**10,788**	20,890
Dividend income	**3,888**	4,175	**2,289**	2,828
Net gains from investment securities	**10,975**	8,484	**11,062**	8,956
Other operating income	**6,285**	6,978	**10,118**	13,622
Operating income	**172,923**	159,410	**183,682**	172,604
Personnel costs	**(60,168)**	(57,208)	**(62,539)**	(59,393)
Staff retirement benefits	**(20,092)**	(22,222)	**(20,151)**	(22,634)
Premises, equipment and establishment expenses	**(17,646)**	(15,925)	**(19,500)**	(17,500)
Amortisation of intangible assets	**(1,783)**	(1,263)	**(1,790)**	(1,275)
Other operating expenses	**(15,425)**	(12,094)	**(15,485)**	(14,936)
Operating profit before provisions	**57,809**	50,698	**64,217**	56,866
Provision for loan losses	**(10,720)**	(12,649)	**(11,671)**	(13,529)
Recovery of non-performing advances	**11,767**	16,491	**11,844**	16,579
Provision for fall in value of investments & dealing securities	**(361)**	–	**(135)**	(2)
Operating profit	**58,495**	54,540	**64,255**	59,914
Share of profit of associate companies after tax	**–**	–	**683**	37
Profit before value added tax and income tax	**58,495**	54,540	**64,938**	59,950
Value added tax on financial services	**(17,139)**	(16,319)	**(17,536)**	(16,319)
Profit before income tax	**41,356**	38,221	**47,402**	43,632
Provision for taxation	**(15,333)**	(13,953)	**(16,887)**	(15,640)
Net profit for the year	**26,023**	24,268	**30,515**	27,991
Attributable to:				
Shareholder			**29,690**	27,205
Minority interest			**825**	786
Net profit for the year			**30,515**	27,991
Basic earnings per share (US$)	**6.51**	6.07	**7.42**	6.80
Diluted earnings per share (US$)	**6.51**	6.07	**7.42**	6.80

The Income Statement and the Balance Sheet in US$ on pages 128 and 129 are presented solely for the convenience of the redears of the Annual Report.

Exchnge Rate I US$ was Rs. 109.2550 as at 31 December 2007 (Rs. 108.2550 as at 31 December 2006).

BALANCE SHEET - US$

As at 31 December	Bank 2007 US$ '000	Bank 2006 US$ '000	Group 2007 US$ '000	Group 2006 US$ '000
ASSETS				
Cash and short-term funds	**84,614**	71,960	**85,223**	72,306
Balances with Central Banks	**157,916**	158,016	**157,916**	158,016
Treasury bills, bonds and other eligible bills	**358,844**	423,151	**363,421**	433,672
Dealing securities	**29,146**	10,904	**29,743**	11,586
Placement with and loans to other banks	**180,512**	219,254	**180,512**	219,254
Loans & advances to customers				
Bills of exchange	**101,883**	39,068	**104,915**	39,073
Loans & advances	**2,429,244**	2,004,687	**2,434,657**	2,012,402
Lease rentals receivable - within one year	**7,045**	585	**37,877**	15,015
Lease rentals receivable - one to five years	**46,273**	17,517	**73,502**	58,590
Lease rentals receivable - after five years	**762**	288	**856**	295
	2,585,207	2,062,145	**2,651,807**	2,125,375
Treasury bonds maturing after one year	**250,209**	224,131	**250,209**	224,131
Government of Sri Lanka restructuring bonds	**78,230**	78,952	**78,230**	78,952
Investment securities	**21,615**	21,983	**23,567**	24,004
Investment properties	**5,113**	10,047	**9,350**	10,047
Investments in associate companies	**7,502**	7,320	**8,547**	7,685
Investments in subsidiary companies	**25,911**	26,968	**–**	–
Other assets	**152,692**	110,180	**157,850**	115,214
Deferred tax assets	**546**	2,184	**–**	1,499
Group balances receivable	**20,754**	15,925	**6,300**	5,630
Property, plant & equipment	**46,925**	47,517	**60,609**	60,646
Intangible assets	**2,331**	3,878	**2,427**	3,887
Total assets	**4,008,067**	3,494,515	**4,065,711**	3,551,904
FINANCED BY:				
LIABILITIES				
Deposits from customers	**2,825,201**	2,426,460	**2,841,799**	2,446,255
Debit securities in issue	**497,941**	445,680	**510,995**	459,069
Other borrowed funds	**330,139**	314,615	**345,935**	320,349
Group balances payable	**10,495**	2,894	**645**	703
Deferred tax liability	**–**	–	**243**	–
Tax payable	**8,104**	6,712	**8,792**	7,192
Other liabilities	**121,093**	108,213	**122,927**	113,141
Subordinated debentures	**22,425**	24,479	**22,425**	24,479
Total liabilities	**3,815,397**	3,329,053	**3,853,761**	3,371,188
EQUITY				
Stated capital	**45,764**	36,950	**45,764**	36,950
Permanent reserve fund	**23,020**	22,678	**23,020**	22,678
Retained profits	**111,305**	95,129	**122,617**	102,845
Reserves	**12,581**	10,705	**15,099**	13,246
Total equity attributable to the parent	**192,670**	165,463	**206,500**	175,719
Minority interest			**5,450**	4,997
Total equity	**192,670**	165,463	**211,950**	180,716
Total equity and liabilities	**4,008,067**	3,494,515	**4,065,711**	3,551,904
Commitments and contingencies	**1,233,013**	974,572	**1,233,372**	974,918

HISTORICAL OVERVIEW

Bank of Ceylon has evolved continuously over the years, undergoing changes in its business operations, branch network, ownership, people, products and services to emerge as the largest financial service provider in Sri Lanka. Such progress is summarised below:

Year	
1939	Bank of Ceylon established as the nation's first modern, locally-owned bank. Ceremonially opened on 1 August by Governor, Sir Andrew Caldecott, at the present-day premises of the City Office.
1941	Operations commence in Kandy with opening of a branch office. Other branches opened subsequently in other large outstation towns: Galle, Jaffna and Trincomalee.
1946	Foreign Department established. Operates from offices at the Grand Oriental Hotel (GOH) Building, Colombo Fort.
1949	First overseas branch opens in London shortly after Independence; it is the thirteenth bank branch to be opened.
1953	C Loganathan becomes first Sri Lankan General Manager.
1954	Central Office moves from City Office to premises at GOH Building.
1959	Authorized capital enhanced to Rs. 50 million by Act of Parliament.
1961	Nationalization. The Government of Ceylon becomes sole owner of Bank of Ceylon.

Year	
1961	Kachcheri branch network set up in alignment with the Government's District Administration System.
1973	Agriculture Service Centre concept implemented. Operations commence at over 350 Agricultural Service Centre Branches. Comprehensive Rural Credit Scheme implemented.
1978	Non-Residents Foreign Currency (NRFC) deposit scheme introduced.
1979	Offshore banking operations commence with the establishment of the Foreign Currency Banking Unit.
1980	Computer Division established; automation of business operations commences.
1981	Branch opened in Malé, Republic of Maldives.
1985	Head Office moves to 32-storey BoC Tower in Colombo.
1988	Installation of the first BoC ATMs ushers in the electronic banking era.
1989	Ceybank Visa credit card introduced in collaboration with Visa International.
1995	Overseas branch network augmented with offices in Madras and Karachi.
1996	Joint venture with Nepal Bank establishes Nepal Bank of Ceylon Ltd.

Year	
1998	MoU with Government results in greater management autonomy and target-based performance.
2000	Authorised capital further enhanced to Rs. 50 billion by Act of Parliament.
2004	Real estate subsidiary Mireka Capital Land (Pvt) Ltd. formed to invest in Havelock City, the largest single condominium development in Sri Lanka.
2005	Balance sheet footings top Rs. 300 billion, the largest asset base of any Sri Lankan bank.
2005	Wide range of relief, rehabilitation and reconstruction activities undertaken and financed in the aftermath of the December 2004 tsunami.
2006	Wins IBM/FISERV prize for the fastest deployment of an on-line core banking system in Asia-Pacific region.
2007	Raises $ 210 million, the largest internationally syndicated debt by any Sri Lankan issuer; appointed Co-Manager of historic $ 500 million debut bond issued by the Government of Sri Lanka; commences Village Development Programme focused on engaging rural communities.

STRATEGIC INTENT & BRAND SUMMARY

STRATEGIC INTENT

Strategic intent of your bank is based on 4 Pillars to embed and grow as No. 1 domestically and expand internationally managed out of London by growing RETURNS, managing RISK, enhancing the quality of its PEOPLE and uplifting the ENVIRONMENT. It envisages linking your bank to the 2007/08 National Budget of Sri Lanka, the 10-year 'Randora' Strategy and the Knowledge Economy to engage in business with renewed vigour, optimism and purpose. In summary the strategic intent of your bank is composed of the following key elements to create value -

- Embed and grow the franchise in Sri Lanka
- Targeted international growth
- Application of 4 Pillars as noted above
- Investing in technology

BRAND SUMMARY

Bank of Ceylon's multi-dimensional brand values are captured in its corporate positioning statement 'Bankers to the Nation' incorporating all of the following:

- Provide the business community with world-class facilities in core banking including trade and micro finance, treasury and offshore operations.
- Serve individuals through a comprehensive range of lending and borrowing facilities and investment opportunities.
- Deliver superior customer service to businesses and individuals all over the country through Sri Lanka's largest on-line service network with state-of-the-art technology.
- Inculcate the banking habit among lower income groups to promote nation-wide financial literacy and financial inclusion.
- Nurture self-employment and small businesses in order to promote and broad-base equitable national development island-wide through entrepreneurship.
- Help migrant workers to transfer funds and assist their families locally.
- Fund a major segment of the country 's imports.
- Help stabilise exchange and interest rates.
- Mobilise foreign financial resources for Sri Lanka.
- Nurture the development of all communities across the country via the on-line nation-wide branch network.

TEN YEAR STATISTICAL SUMMARY

Rs. million	1998	1999	2000	2001	2002	2003	2004	2005 Restated	2006	**2007**
Operating Results										
Gross Income	20,123	21,477	22,753	28,410	24,578	22,805	23,957	27,324	35,192	**50,159**
Interest Income	15,710	16,624	18,245	22,887	20,258	17,040	16,609	20,595	26,823	**42,286**
Interest Expense	(8,998)	(9,997)	(12,498)	(17,704)	(12,794)	(8,438)	(8,256)	(11,231)	(15,744)	**(29,453)**
Foreign Exchange Income	1,244	1,045	384	1,205	737	707	1,781	1,015	2,261	**1,178**
Other Income	2,472	2,848	3,153	2,996	2,985	4,343	4,804	5,714	6,107	**6,695**
Operating Expenses	(5,275)	(5,507)	(6,061)	(6,892)	(7,406)	(9,314)	(9,999)	(11,314)	(13,941)	**(14,978)**
Provision for bad and doubtful debts and fall in value of investments & properties	(4,081)	(2,018)	(2,412)	(1,875)	(2,941)	(3,012)	(2,886)	(1,659)	(1,369)	**(1,210)**
Operating Profit	1,072	2,995	811	617	839	1,326	2,053	3,120	4,137	**4,518**
Share of Profit/Loss of Related Companies	196	29	260	274	399	474	506	–	–	**–**
Profit before Income Tax	1,268	3,024	1,071	891	1,238	1,800	2,559	3,120	4,137	**4,518**
Income Tax on Profit	(1,150)	(969)	(370)	(74)	(219)	(168)	(590)	(1,225)	(1,510)	**(1,675)**
Profit after Taxation	118	2,055	701	817	1,019	1,632	1,969	1,895	2,627	**2,843**
Assets										
Cash and Short-Term Funds	2,999	4,954	3,309	4,122	4,275	4,179	5,584	6,127	7,790	**9,245**
Balance with Central Banks	9,527	9,462	7,057	8,835	9,198	7,944	12,480	13,933	17,106	**17,253**
Treasury bills and other securities eligible for rediscounting with Central Bank	4,990	6,472	5,340	4,313	13,134	13,837	25,502	41,366	45,808	**39,205**
Dealing Securities	1,227	1,041	614	797	503	1,411	507	54	1,180	**3,184**
Placements with and Loans to Other Banks	21,154	20,063	28,685	10,642	13,494	26,412	27,362	36,851	23,735	**19,722**
Bills of exchange, Loans and Advances	82,794	88,314	112,168	142,478	114,609	113,078	130,055	164,815	221,247	**276,538**
Lease Rentals Receivables	357	323	341	266	276	406	579	936	1,991	**5,909**
Investment Securities	3,689	5,320	26,974	26,635	27,548	26,781	21,827	2,787	2,380	**2,361**
Investment Properties	–	–	–	–	–	1,150	1,150	1,236	1,088	**559**
Treasury bonds maturing after one year	–	–	–	–	–	–	–	9,882	24,263	**27,337**
Investment in Subsidiaries and Associates	1,602	2,717	2,947	2,822	2,831	4,008	4,984	4,225	3,711	**3,650**
Government of Sri Lanka Restructuring Bonds	18,883	17,883	17,883	17,883	17,883	17,883	17,883	17,883	8,547	**8,547**
Deferred tax assets	–	–	–	–	–	–	–	704	236	**60**
Group balances Receivable	2,985	1,111	848	810	646	1,209	1,041	853	1,724	**2,267**
Property, Plant & Equipment	3,510	3,682	3,604	3,451	3,946	4,344	4,947	4,769	5,144	**5,127**
Intangible assets	–	–	–	–	–	–	–	467	420	**255**
Other Aseets	13,733	17,300	23,146	14,619	19,532	17,746	12,498	12,833	11,928	**16,682**
Total Assets	167,450	178,642	232,916	237,673	227,875	240,388	266,399	319,721	378,299	**437,901**

Rs. million	1998	1999	2000	2001	2002	2003	2004	2005 Restated	2006	**2007**
Liabilities										
Deposits from Non-Bank Customers	113,927	119,754	130,583	146,589	169,978	185,850	204,633	232,006	262,170	**308,108**
Deposits from Banks	1,047	821	544	581	443	451	531	506	507	**559**
Borrowings	28,675	34,240	73,266	65,835	31,735	26,258	34,528	60,186	82,306	**90,472**
Group balance payable	165	285	214	219	123	955	1,020	310	313	**1,147**
Deferred Taxation	294	318	262	–	–	–	–	–	–	**–**
Other Liabilities	12,622	11,140	15,934	12,204	12,758	11,304	9,289	8,512	12,441	**14,115**
Subordinated debentures	1,000	1,000	1,000	1,000	1,000	1,250	1,050	1,850	2,650	**2,450**
Total Liabilities	157,731	167,558	221,803	226,428	216,037	226,068	251,051	303,370	360,387	**416,851**
Shareholders' Equity										
Stated Capital	1,000	1,000	1,000	2,600	2,600	2,600	2,600	4,000	4,000	**5,000**
Capital pending allotments	1,600	1,600	1,600	–	–	–	–	–	–	**–**
Reserves	7,119	8,484	8,513	8,645	9,238	11,720	12,748	12,351	13,912	**16,050**
Total Shareholders' Equity	9,719	11,084	11,113	11,245	11,838	14,320	15,348	16,351	17,912	**21,050**
Total Equity and Liabilities	167,450	178,642	232,916	237,673	227,875	240,388	266,399	319,721	378,299	**437,901**
Commitments and Contingencies	84,500	67,510	79,870	73,316	62,996	50,087	58,841	80,187	105,502	**134,713**
Ratios										
Return on Average Assets (%)	0.80	1.75	0.52	0.38	0.53	0.77	1.01	1.06	1.19	**1.11**
Return on Average Shareholders' Funds (%) - Before tax	12.15	29.07	9.66	7.97	10.73	13.77	17.25	19.69	24.15	**23.19**
Return on Average Shareholders' Funds (%) - After tax	1.13	19.75	6.32	7.31	8.83	12.48	13.28	11.96	15.33	**14.59**
Capital Adequacy Ratio (%)	9.94	12.06	11.53	13.05	12.44	13.11	12.44	13.18	12.30	**11.40**
Income Growth (%)	0.16	7.16	5.94	24.86	(13.49)	(7.21)	5.05	14.05	28.80	**42.53**
Capital Funds to Liabilities Including Contingent Liabilities (%)	4.01	4.72	3.68	3.75	4.24	5.19	4.95	4.26	3.84	**3.82**
Liquidity Ratio (%)	34.82	39.44	27.86	28.50	34.19	25.34	23.82	26.87	22.19	**21.20**
Other Information										
No. of Employees	9,873	9,697	9,473	9,245	9,268	8,927	8,718	8,891	8,363	**8,253**
No. of Branches	296	296	296	296	297	299	300	304	305	**307**
No. of Advances (in '000)	696	694	695	718	796	1,061	1,218	1,285	1,541	**1,867**
No. of Depositors (in '000)	4,386	4,561	4,749	4,896	5,089	5,274	5,491	5,782	6,248	**6,993**

CORPORATE OFFICES & OVERSEAS BRANCHES

Registered Head Office
No. 4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: +94 11 2446790-811 (22 lines)
+94 11 2338741-55 (15 lines)
Telegraphic Address: 'HEADBANK'
Telex: 21331 BOCST CE
SWIFT Code: BCEYLKLX
Website: www.boc.lk

International Division
7th, 8th, 9th Floors, Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: +94 11 2445794, 2445791-2, 2445783, 2445781-5
2447830-1, 2345424, 2345420, 2448207, 2338765,
2544309, 2344845, 2338741-55, 2445793
Fax: +94 11 2445788, 2447171

Corporate Branch
1st, 2nd, 3rd Floors, Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: +94 11 2446814, 2445803, 2345428, 2471613,
2446818-20
Fax: +94 11 2446813, 2446814, 2399561
Telex: Colombo 21499
Email: boc660@boc.lk

Second Corporate Branch
3rd Floor, Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: +94 11 2325742, 2447812, 2394584
Fax: +94 11 2446816
Email: boc822@sltnet.lk

Metropolitan Branch
Bank of Ceylon Building, York Street,
Colombo 1, Sri Lanka.
Tel: +94 11 2449063, 2329419, 2328521 (10 lines)
Fax: +94 11 2422679, 2320838, 2472646, 2328197
Email: boc618@boc.lk

Taprobane Branch
Bank of Ceylon Building, York Street,
Colombo 1, Sri Lanka.
Tel: +94 11 2422267, 2447173, 2328521 (10 lines)
Fax: +94 11 2430267

Pettah Branch
Gas Work Street,
Colombo 11, Sri Lanka.
Tel: +94 11 2452368, 2393544, 2434478-9, 2431555
Fax: +94 11 2432629, 2435949
Email: boc004@boc.lk

Offshore Banking Division
2nd Floor, Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: +94 11 2338765, 2389123, 2389122, 2346553
Fax: +94 11 2448776, 2445784, 2346536, 2346551,
2346596
Email: agmoffsho@boc.lk
Telex: BO-FCBU-23481

OVERSEAS BRANCHES

London Branch
Bank of Ceylon
No. 1, Devonshire Square,
London, EC 2M 4WD, United Kingdom.
Tel: 0044 207 8800121, 0044 207 3771888
Telegraphic Address: CEYBANK
Fax: 0044 207 3775430
Swift: BCEYGB2L
Email: bankofceylon.uk@btclick.com

Male Branch
Bank of Ceylon,
'Aage' 12,
Boduthakurufaanu,
Magu, Male 20094,
Republic of Maldives.
Tel: 00960 323045, 00960 323046
Fax: 00960 320575
Swift: BCEYMVMV
Email: bcmale@dhivehinet.net.mv

Chennai Branch
Bank of Ceylon
1090, Poonamalee High Road,
Chennai 600 084, India.
Tel: 009144-26423501, 26420972, 26420973
Fax: 009144-25325590
Swift: BCEYIN5M
Email : ceybank@vsnl.com

SUBSIDIARIES & ASSOCIATES

MERCHANT BANK OF SRI LANKA PLC
(SUBSIDIARY COMPANY) Holding 76%
Principal Activities
Leasing, trade finance, corporate advisory services, fund management, capital market activities and corporate secretarial and legal services.

Registered Address
18th Floor, BoC Merchant Tower,
No. 28, St. Michael's Road,
Colombo 3.
Tel: 4 711 711, 2 565 636

MERCHANT CREDIT OF SRI LANKA LIMITED
(SUBSIDIARY COMPANY) Holding 87.6%*
Principal Activities
Accepting fixed deposits and call deposits, finance and operating lease, hire purchase, trade finance, and real estate business activities.

Registered Address
11th Floor, BoC Merchant Tower,
No. 28, St. Michael's Road,
Colombo 3.
Tel: 2 301 500-3

PROPERTY DEVELOPMENT PLC
(SUBSIDIARY COMPANY) Holding 93.16%
Principal Activities
Maintain, management and development of utility and value of the BoC Head Office Building.

Registered Address
19th Floor, BoC Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1.
Tel: 2 448 549, 2 544 328

CEYLEASE FINANCIAL SERVICES LIMITED
(SUBSIDIARY COMPANY) Holding 50%
Principal Activities
Providing of leasing, hire purchase and finance facilities.

Registered Address
No. 182, Platinum Tower,
Elvitigala Mawatha,
Colombo 8.
Tel: 2 681 850, 2 358 000

BOC TRAVELS (PRIVATE) LIMITED
(SUBSIDIARY COMPANY) Holding 100%
Principal Activities
Engage in travel-related services.

Registered Address
1st Floor, BOC Super Grade Branch Building,
Baseline Road,
Colombo 8.
Tel: 2 688 155-8

BOC PROPERTY DEVELOPMENT & MANAGEMENT (PRIVATE) LIMITED
(SUBSIDIARY COMPANY) Holding 100%
Principal Activities
Renting of office space of BoC Merchant Tower in Colombo 3 and Ceybank Homes in Kandy.

Registered Address
19th Floor, BoC Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1.
Tel: 2 388 229

HOTELS COLOMBO (1963) LIMITED
(SUBSIDIARY COMPANY) Holding 98.23%
Principal Activities
Providing hotel services.

Registered Address
P.O. Box 152, No. 2, York Street,
Colombo 1.
Tel: 2 320 320, 5 221 100

BOC MANAGEMENT AND SUPPORT SERVICES (PRIVATE) LIMITED
(SUBSIDIARY COMPANY) Holding 100%
Principal Activities
Providing management services.

Registered Address
25th Floor, BoC Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1.
Tel: 2 446 790

CEYBANK HOLIDAY HOMES (PRIVATE) LIMITED
(SUBSIDIARY COMPANY) Holding 100%*
Principal Activities
Management of BoC holiday homes.

Registered Address
12th Floor, BoC Head Office Building,
No. 4, Bank of Ceylon Mawatha,
Colombo 1.
Tel: 2 447 845

LANKA SECURITIES (PRIVATE) LIMITED
(ASSOCIATE COMPANY) Holding 42.04%*
Principal Activities
Stockbroker

Registered Address
5th Floor,
No. 86, Galle Road,
Colombo 3.
Tel: 5 576 757, 2 431 138

THE UNIT TRUST MANAGEMENT COMPANY (PRIVATE) LIMITED
(ASSOCIATE COMPANY) Holding 20%
Principal Activities
Fund management.

Registered Address
3rd Floor, BoC Building,
York Street,
Colombo 1.
Tel: 2 448 403, 2 327 857

TRANSNATIONAL LANKA RECORD SOLUTIONS (PRIVATE) LIMITED
(ASSOCIATE COMPANY) Holding 24.69%
Principal Activities
Archive management.

Registered Address
No. 160/16, Kirimandala Mawatha, Narahenpita,
Colombo 5.
Tel: 2 369 007, 2 369 001-4

SOUTHERN DEVELOPMENT FINANCIAL COMPANY LIMITED
(ASSOCIATE COMPANY) Holding 41.67%
Principal Activities
Venture capital funding.

Registered Address
No. 18, Bandarawatta,
Pamburana,
Matara.
Tel: 041 2 221 618

MIREKA CAPITAL LAND (PRIVATE) LIMITED
(ASSOCIATE COMPANY) Holding 40%
Principal Activities
Property development.

Registered Address
No. 324, Havelock City,
Colombo 5.
Tel: 2 596 793, 5 533 100

* The % holding in subsidiaries and associates includes indirect holding as well.

BRANCH NET WORK AS AT 31 DECEMBER 2007

No.	Branch	Tel. No.
CENTRAL PROVINCE		**081-2201444**
1	Alawathugoda	066-2242327
2	Dambulla	066-2285270
3	Digana	081-2375851
4	Galagedara	081-2461214
5	Galaha	081-2467213
6	Galewela	066-2289262
7	Gampola	081-2350108
8	Gelioya	081-2310214
9	Hatton	051-2222015
10	Kandapola	052-2229636
11	Kandy	081-2223697
12	Kandy 2nd	081-2234292
13	Katugastota	081-4471640
14	Medawala	081-2476214
15	Maskeliya	052-2277280
16	Matale	066-2222262
17	Naula	066-2246280
18	Nawalapitiya	054-2222233
19	Nuwara Eliya	052-2224047
20	Padiyapelella	052-2287035
21	Pallepola	066-2247272
22	Peradeniya	081-4475283
23	Pilimatalawa	081-5740197
24	Pundaluoya	051-2233205
25	Pussellawa	081-2478642
26	Rattota	066-2255280
27	Rikillagaskada	081-2365314
28	Talatuoya	081-2404334
29	Talawakelle	052-2258280
30	Ududumbara	081-2402317
31	Walapane	052-2279180
32	Wattegama	081-2475838
33	Yatawatta	066-2221084
EASTERN PROVINCE		**011-2323164**
34	Akkaraipattu	067-2279242
35	Ampara	063-2222981
36	Batticaloa	065-2227410
37	Chenkalady	065-2240492
38	Hingurana	063-2240037
39	Kalmunai	067-2229340
40	Kaluwanchikudy	065-2250012
41	Kantale	026-2234361
42	Kattankudy	065-2246613
43	Kinniya	026-2236270
44	Muttur	026-2238327
45	Nintavur	067-2250039
46	Pottuvil	063-2248021
47	Sammanthurai	067-2260054
48	Trincomalee	026-2223084
49	Trincomalee Bazaar	026-2223880
50	Valachchenai	065-2257708

No.	Branch	Tel. No.
NORTH CENTRAL PROVINCE		**025-2235679**
51	Anuradhapura	025-2222715
52	Anuradhapura Bazaar	025-2222160
53	Anuradhapura New Town	025-2223685
54	Aralaganwila	066-2224257
55	Bakamoona	066-2256680
56	Dehiattakandiya	027-2250287
57	Eppawala	025-2249180
58	Galenbindunuwewa	025-2258280
59	Galkiriyagama	025-2263062
60	Galnewa	025-2269580
61	Hingurakgoda	027-2247642
62	Horowpothana	025-2278416
63	Ipalogama	025-2264279
64	Jayanthipura	027-2222266
65	Kaduruwela	027-2222416
66	Kahatagasdigiliya	025-2247480
67	Kebithigollewa	025-2298680
68	Kekirawa	025-2264280
69	Madatugama	025-2264283
70	Medawachchiya	025-2245683
71	Medirigiriya	027-2248337
72	Meegalewa	025-2269609
73	Mihintale	025-2266503
74	Nochchiyagama	025-2257880
75	Padavi Parakramapura	025-2254018
76	Pemaduwa	025-2223307
77	Polonnaruwa New Town	027-2223009
78	Sewagama	027-2222585
79	Thambuttegama	025-2276280
80	Tirappane	025-2223352
NORTHERN PROVINCE		**021-2223985**
81	Chavakachcheri	021-2227396
82	Chunnakam	021-2223969
83	Jaffna	021-2224018
84	Jaffna 2nd	021-2222598
85	Kankesanthurai	021-2225624
86	Karainagar	021-2228278
87	Kayts	021-2225274
88	Kilinochchi	021-2283949
89	Manipay	021-2227456
90	Mankulam	071-2348783
91	Mannar	023-2232337
92	Mullaitivu	021-2228941
93	Nelliady	021-2263260
94	Point Pedro	021-2263570
95	Thirunelveli	021-2223948
96	Vavuniya	024-2222141
NORTH WESTERN PROVINCE		**037-2223401**
97	Alawwa	037-2278180
98	Anamaduwa	032-2263280

No.	Branch	Tel. No.
99	Bingiriya	032-2246107
100	Chilaw	032-2223401
101	Dankotuwa	031-2258180
102	Dummalasuriya	032-2240690
103	Galgamuwa	037-2253080
104	Giriulla	037-2288080
105	Hettipola	037-2291080
106	Hiripitiya	037-2264080
107	Ibbagamuwa	037-2259970
108	Kalpitiya	032-2260702
109	Kobeigane	037-2293101
110	Kuliyapitiya	037-2281280
111	Kurunegala	037-2233880
112	Kurunegala 2nd	037-2222115
113	Madampe	032-2247680
114	Madurankuliya	032-2240020
115	Maho	037-2275280
116	Mawathagama	037-2299259
117	Melsiripura	037-2250165
118	Narammala	037-2249280
119	Nattandiya	032-2254280
120	Nikaweratiya	037-2260280
121	Pannala	037-2246080
122	Polgahawela	037-2243280
123	Pothuhera	037-2237619
124	Puttalam	032-2265209
125	Ridigama	037-2252080
126	Waikkal	031-2277280
127	Wariyapola	037-2267348
128	Welpalla	031-2299512
129	Wennappuwa	031-2255280
SABARAGAMUWA PROVINCE		**045-2222746**
130	Aranayake	035-2258016
131	Avissawella	036-2222099
132	Ayagama	045-2250080
133	Balangoda	045-2288390
134	Dehiowita	036-2222580
135	Deraniyagala	036-2249280
136	Eheliyagoda	036-2259571
137	Embilipitiya	047-2230980
138	Hemmathagama	035-2257280
139	Kahawatta	045-2270180
140	Kalawana	045-2255280
141	Kegalle	035-2230600
142	Kegalle Bazaar	035-2222550
143	Kuruwita	045-2262581
144	Mawanella	035-2247915
145	Nivitigala	045-2279280
146	Pelmadulla	045-2274380
147	Rakwana	045-2246280
148	Rambukkana	035-2265280

No.	Branch	Tel. No.
149	Ratnapura	045-2222100
150	Ratnapura Bazaar	045-2222710
151	Ruwanwella	036-2266280
152	Warakapola	035-2267258
153	Yatiyantota	036-2266281
SOUTHERN PROVINCE		**091-2232238**
154	Ahungalla	091-2264107
155	Akuressa	041-2283280
156	Ambalangoda	091-2256307
157	Ambalantota	047-2223280
158	Angunakolapelessa	047-2229120
159	Baddegama	091-2292280
160	Batapola	091-2260405
161	Beliatta	047-2243274
162	Bentota	034-2275283
163	Deniyaya	041-2273870
164	Devinuwara	041-2222247
165	Dickwella	041-2255280
166	Elpitiya	091-2291280
167	Galle	091-2232269
168	Galle Bazaar	091-2234478
169	Hakmana	041-2286280
170	Hambantota	047-2220180
171	Hikkaduwa	091-2277813
172	Imaduwa	091-2286030
173	Kamburupitiya	041-2292213
174	Kataragama	047-2235280
175	Koggala EPZ	091-2283380
176	Matara	041-2229280
177	Matara Bazaar	041-2223920
178	Middeniya	047-2247280
179	Neluwa	091-2237530
180	Pitigala	091-2291205
181	Ruhunu Campus	041-2222681
182	Talgaswela	091-2296480
183	Tangalle	047-2240280
184	Tawalama	091-2224459
185	Tissamaharama	047-2237280
186	Urubokka	041-2272280
187	Walasmulla	047-2245280
188	Weeraketiya	047-2246280
189	Weligama	041-2250280
190	Yakkalamulla	091-2286080
UVA PROVINCE		**055-2222842**
191	Badalkumubura	055-2250279
192	Badulla	055-2222980
193	Ballaketuwa	055-2285160
194	Bandarawela	057-2230014
195	Bibile	055-2265480
196	Buttala	055-2273980
197	Diyatalawa	057-2229092
198	Ettampitiya	055-2294080
199	Girandurukotte	027-2254380
200	Haldummulla	057-2268271
201	Haputale	057-2268080
202	Koslanda	057-2257780
203	Lunugala	055-2263980
204	Lunuwatta	057-2232742
205	Mahiyangana	055-2258195
206	Medagama	055-2265580
207	Meegahakiula	055-2245707
208	Moneragala	055-2276180
209	Padiyatalawa	063-2246003
210	Passara	055-2288280
211	Siyambalanduwa	072-2243900
212	Thanamalwila	047-2234080
213	Uva-Paranagama	057-2246010
214	Welimada	057-2245984
215	Wellawaya	055-2274880
WESTERN PROVINCE NORTH		**011-2381366**
216	Andiambalama	011-2258184
217	Biyagama	011-5558970
218	Borella	011-4612617
219	Borella 2nd	011-2685140
220	Central Bus Stand	011-5365118
221	Central Super Market	011-2446475
222	City Office	011-2329413
223	Dematagoda	011-5335594
224	Divulapitiya	031-2246280
225	Fifth City	011-2449646
226	Gampaha	033-2226051
227	Grandpass	011-2448202
228	Hulftsdorp	011-2424843
229	Ja-Ela	011-5342311
230	Kadawatha	011-2920687
231	Kandana	011-2232398
232	Katunayake IPZ	011-2259583
233	Kiribathgoda	011-2906149
234	Kirindiwela	033-2267280
235	Kolonnawa	011-5557286
236	Kotahena	011-2448632
237	Lake House	011-5363723
238	Lake View	011-5359693
239	Main Street	011-2447198
240	Maradana	011-2689403
241	Minuwangoda	011-2295214
242	Mirigama	033-2275975
243	Narahenpita	011-2368514
244	Negombo	031-2224711
245	Negombo Bazaar	031-2231297
246	Nittambuwa	033-2287280
247	Peliyagoda	011-2945078
248	Personal	011-2446821
249	Pugoda	011-2404821
250	Ragama	011-2960291
251	Regent Street	011-2697035
252	Seeduwa	011-2259590
253	Veyangoda	033-2287279
254	Wattala	011-5368394
255	Welisara	011-2958485
256	Yakkala	033-2233591
WESTERN PROVINCE SOUTH		**011-2853905**
257	Agalawatta	034-2247480
258	Aluthgama	034-2271413
259	Athurugiriya	011-2561378
260	Bambalapitiya	011-5368439
261	Bandaragama	038-2290280
262	Battaramulla	011-2862575
263	Beruwala	034-2279899
264	Bulathsinhala	034-2283116
265	Dehiwala	011-2738335
266	Dharga Town	034-2275411
267	Dodangoda	034-2281628
268	Hanwella	036-2253520
269	Homagama	011-2855059
270	Horana	034-2260152
271	Hyde Park	011-2687483
272	Independence Square	011-2678073
273	Ingiriya	034-2269280
274	Kaduwela	011-2537999
275	Kalutara	034-2229804
276	Katubedde	011-2625438
277	Kollupitiya	011-4795036
278	Kollupitiya 2nd	011-2574581
279	Kottawa	011-2783313
280	Maharagama	011-2746146
281	Malabe	011-2760753
282	Matugama	034-2243590
283	Milagiriya	011-2504627
284	Moratuwa	011-2646165
285	Mount Lavinia	011-2721060
286	Nugegoda	011-2821287
287	Padukka	011-2859112
288	Panadura	038-2243323
289	Panadura Bazaar	038-2243324
290	Parliament	011-2777309
291	Pelawatta	011-2785550
292	Piliyandala	011-2614165
293	Rajagiriya	011-5368641
294	Ratmalana	011-2719735
295	Thimbirigasyaya	011-2594538
296	Union Place	011-2314757
297	Wadduwa	038-2232538
298	Wellawatta	011-2588941

EXTENSION OFFICES

NO.	EXTENSION OFFICE	AFFILIATED BRANCH	TEL. NO.
1	Pitabeddara	Akuressa	041-2281081
2	Gonagolla	Ampara	063-2224943
3	General Hospital, Anuradhapura	Anuradapura	025-2222261 Ext-330
4	Seethawakapura	Avissawella	036-2232656
5	Idangoda	Ayagama	045-2265080
6	Hali-Ela Extension Office	Badulla	055-2295080
7	Pambahinna University	Balangoda	045-2280093
8	Immigration & Emigration Office	Bambalapitiya	011-5329000
9	Sethsiripaya	Battaramulla	011-2863637
10	Batticaloa	Batticaloa	065-2227032
11	Pelawatta Extension Office	Buttala	060-2559825
12	Eastern University	Chenkalady	065-2240490
13	Eravur	Chenkalady	065-2241012
14	Atchuvely Extension Office	Chunnakam	021-2263402
15	Board of Investment - SLPA	Corporate	011-2448875
16	Canal Yard - SLPA	Corporate	011-2483526
17	Nava Nuge Road, Peliyagoda	Corporate	011-2942620
18	Permit Office - SLPA Hunters	Corporate	–
19	Sri Lanka Bureau of Foreign Employment	Corporate	011-2864147
20	Night Banking	Dambulla	066-2285217
21	BOI Pallekele	Digana	081-5672445
22	Theldeniya	Digana	081-2376280
23	Uragasmanhandiya	Elpitiya	091-2264865
24	Ambanpola	Galgamuwa	037-2254099
25	Ahangama	Galle Bazaar	041-2283977
26	Karapitiya	Galle SGB	091-2227090
27	Daulagala	Gampola	060-2804067
28	Bogawanthalawa	Hatton	052-2267599
29	Kotagala	Hatton	–
30	Meegoda Economic Dev. Centre	Homagama	011-2831589
31	Bodyline (Pvt.) Limited	Horana	011-2485500 Ext-2421
32	Srawasthi Mandiraya	Independent Square	011-2681366
33	BMICH Premises	Independent Square	011-2669136
34	BOI Katunayake - Cash Collection Centre	IPZ Katunayake	011-2252523
35	Cargo Office	IPZ Katunayake	011-2251943
36	Endana	Kahawatta	060-2450661
37	Norochcholei	Kalpitiya	032-2268555
38	Deyiandara	Kamburupitiya	041-2268598
39	Ragala	Kandapola	052-2265660
40	Kandy Teaching Hospital	Kandy SGB	081-2233335
41	Katubedda Campus	Katubedda	011-2650301 Ext-1609
42	Kegalle Hospital	Kegalle SGB	035-2222765
43	Gothatuwa New Town	Kollonnawa	–
44	Lotteries Board	Kollupitiya	011-2333546
45	Wayamba University	Kuliyapitiya	037-2284480
46	Toduwawa	Madampe	032-2256330
47	National Institute of Education	Maharagama	011-2851301
48	Sri Jayawardena Hospital	Maharagama	011-2779136
49	Hasalaka	Mahiyangana	055-2257180
50	Polpitigama	Maho	060-2871598
51	Chankanai	Manipay	–
52	Murunkan	Mannar	023-2250935
53	Palapathwala	Matale	066-2225505
54	Courtaulds Clothing Lanka (Pvt) Limited	Minuwangoda	011-2299055
55	Moneragala Town	Moneragala	055-2277270
56	Katupotha	Narammala	037-2247471
57	Marawila	Nattandiya	032-2252675
58	Administrative Complex, Isurupaya	Pelawatta	011-2785875
59	Peradeniya Botanical Gardens	Peradeniya	–
60	University of Peradeniya	Peradeniya	081-2388301
61	BOI Cash Coll. - Prince Street	Personal Branch	–
62	Godakawela	Rakwana	045-2240080
63	Pinnawala	Rambukkana	035-2264294
64	General Hospital, Ratnapura	Ratnapura SGB	045-2223561
65	Provincial Council	Ratnapura SGB	045-2226116
66	Kotiyakumbura	Ruwanwella	035-2289240
67	Ceylon Shipping Lines Limited	Taprobane	011-2445268
68	Customs Imports Unit	Taprobane	011-2436663
69	Department of Inland Revenue	Taprobane	011-2337367
70	Health Ministry Suvasiripaya	Taprobane	011-2681361
71	Laksiriseva (Pvt.) Limited	Taprobane	011-2917729 Ext-730
72	Trico Maritime (Pvt.) Limited	Taprobane	011-4610977
73	Rajina Junction	Thambuttegama	025-2275057
74	Jawatta Inland Revenue	Thimbirigasyaya	011-5657162
75	Kopay	Thirunelveli	021-2228484
76	Thampalagamam	Trincomalee	026-2248043
77	Keppetipola	Welimada	057-2280043
78	Kirimetiyana	Wennappuwa	031-2249960

NO.	KACHCHERI BRANCH	TEL. NO.
1	Ampara Kachcheri	063-2222233
2	Anuradapura Kachcheri	025-2222142
3	Badulla Kachcheri	055-2225475
4	Batticaloa Kachcheri	065-2257708
5	Galle Kachcheri	091-2234514
6	Gampaha Kachcheri	060-2337570
7	Jaffna Kachcheri	021-2222234
8	Kalutara Kachcheri	034-2222286
9	Kandy Kachcheri	081-2224214
10	Kegalle Kachcheri	035-2231574
11	Kurunegala Kachcheri	037-2229726
12	Mannar Kachcheri	023-2232234
13	Matale Kachcheri	066-2222024
14	Matara Kachcheri	041-2222673
15	Moneragala Kachcheri	055-2277270
16	Nuwara-Eliya Kachcheri	052-2222233
17	Pettah Kachcheri	011-2434478-50
18	Puttalam Kachcheri	032-2265351
19	Ratnapura Kachcheri	045-2222454
20	Trincomalee Kachcheri	026-2222465
21	Vavuniya Kachcheri	024-2222234

GLOSSARY OF FINANCIAL/BANKING TERMS

ACCRUAL BASIS
To recognise the effects of transactions and other events as they occur without waiting for the receipt or payment of related cash or its equivalent.

ASSOCIATE COMPANY
A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

CAPITAL RESERVE
Capital Reserve consists of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

CAPITAL ADEQUACY RATIO
The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

CASH EQUIVALENTS
Investments/assets that are readily convertible to cash, subject only to an insignificant risk of change in their value.

COMMITMENT TO EXTEND CREDIT
Refer to contractual arrangements between a bank and a customer to extend credit in the future. The agreement will stipulate conditions that must be satisfied by the customer for the facility to be utilised.

CONTINGENT LIABILITIES
Liabilities that at Balance Sheet date can either not be measured or can only be anticipated to arise if a particular event occurs.

CORPORATE GOVERNANCE
The way, in which corporate entities are managed and organised, ensuring in particular that the interests of stakeholders are given sufficient weight.

COSO FRAMEWORK
Internal control framework developed by the Committee of Sponsoring Organisations of the US based Trade Way Commission and now accepted globally as the standard.

COST/INCOME RATIO
Operating expenses compared to net income.

CREDIT RISK
The risk of loss due to non-payment of a loan or other line of credit (either the principal or interest or both), by the borrower,

DEALING SECURITIES
Securities acquired and held with the intention of reselling them in the short-term.

DEFERRED TAXATION
Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

DERIVATIVES
A financial instrument, the price of which has a strong relationship with an underlying commodity, currency variable, or financial instrument.

DOCUMENTARY LETTERS OF CREDIT (L/C'S)
Written undertakings by a bank on behalf of its customers (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

EARNINGS PER SHARE (EPS)
Net profits earned during a period attributable to ordinary shareholders of a company divided by number of shares in issue during that period.

EFFECTIVENESS
Doing things that influences quality of output.

EFFICIENCY
Doing the things Right. Refers to the ratio of output to input. Example: Cost to Income Ratio.

EFFECTIVE TAX RATE
Provision for taxation divided by the profit before taxation.

EQUITY METHOD
A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the invested. The Income Statement reflects the investor's share of the results of operations of the invested.

FINANCE LEASE
Leases which transfer risks and rewards of ownership. Title may or may not eventually be transferred.

FORECLOSED PROPERTIES
Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

FOREIGN EXCHANGE INCOME
The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rupees on the Balance Sheet date at prevailing rates which differ from those rates in force at inception or on the previous Balance Sheet date.

Foreign exchange income also arises from trading in foreign currencies.

FORWARD EXCHANGE CONTRACT
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

FREE CAPITAL
Excess of equity capital over net book value of Property, Plant & Equipment and Investments.

GROSS DOMESTIC PRODUCT
The value of all goods and services produced domestically in an economy during a specified period, usually a year. Nominal GDP, adjusted for inflation, gives GDP in real terms.

GENERAL PROVISIONS
Provision of 1% of total performing advances. Performing advances shall mean all advances that have not been classified as non-performing advances.

GUARANTEES
Primarily represent irrevocable assurances that a bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

HISTORICAL COST CONVENTION
Recording transactions at the actual value received or paid.

INTEREST IN SUSPENSE
Interest suspended on non-performing loans and advances.

INTEREST MARGIN
Net interest income expressed as a percentage of average interest earning assets.

INTEREST SPREAD
Represents the difference between the average interest rate earned and the average interest rate paid on funds.

INVESTMENT PROPERTIES
Land and buildings not occupied substantially for use by or in the operations of the Bank.

INVESTMENT SECURITIES
Securities acquired and held for yield or capital growth purposes and usually held to maturity.

LEVERAGE
Total liabilities as number of times of Equity.

LIQUID ASSETS
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills.

LIQUID ASSETS RATIO
Liquid Assets expressed as a percentage of total liabilities other than shareholders funds.

MARKET CAPITALISATION
Number of ordinary shares issued multiplied by the market value of each share.

MATERIALITY
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

MARKET RISK
The risk that the value of an investment will change due to the moves in market factors.

NET INTEREST INCOME
The difference between what bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and interbank borrowings.

NON-PERFORMING ADVANCES
A loan placed on cash basis (i.e. interest income is only recognised when cash is received) because, in the opinion of the management, there is reasonable doubt regarding the collectability of principal or interest. Loans are automatically placed on cash basis when a payment is 90 days past due. All loans are classified as non-performing when a payment is 90 days in arrears.

OFF-BALANCE SHEET TRANSACTIONS
Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

OPERATIONAL RISK
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

PRICE EARNINGS RATIO (P/E RATIO)
The current market price of a share divided by its earnings per share (EPS).

PROVISION FOR LOAN LOSSES
A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realisable values.

PRUDENCE
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty such that assets or income are not overstated and liabilities or expenses are not understated.

REPOs
Repurchase Agreements relating to securities sold to creditors (who lend money for funding purposes), with the intention of buying them back at a set price.

RELATED PARTIES
Two parties where one controls the other or exercise significant influence in financial and operating decisions.

RETURN ON AVERAGE ASSETS (ROA)
Net income expressed as a percentage of average total assets. Used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

RETURN ON AVERAGE EQUITY (ROE)
Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

REVENUE RESERVE
Reserves set aside for future distribution and investment.

REVERSE REPO
The purchase of Government securities tied an agreement to resell at a given price on a specific future date.

RISK-ADJUSTED ASSETS
Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk-weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in Off-Balance Sheet instruments is also recognised, first by adjusting notional values to Balance Sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

RISK WEIGHTED ASSETS
On Balance Sheet assets and the credit equivalent of Off Balance Sheet assets multiplied by the relevant risk weighting factors.

SEGMENT REPORTING
Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking & securities dealings, property and insurance.

SHAREHOLDERS' FUNDS
Shareholders' funds consist of issued and fully paid ordinary share capital plus capital and revenue reserves.

SUBSIDIARY COMPANY
A company is a subsidiary of another company if the Parent Company holds more than 50% of the nominal value of its equity capital or holds some shares in it and controls the composition of its Board of Directors.

SUBSTANCE OVER FORM
Refer to the consideration that the accounting treatment of transactions and the events should be governed by their financial reality and not by presentation form.

SWAPS (CURRENCY)
The purchase of currency for spot settlement and its simultaneous sale for settlement at a future date. Alternatively the simultaneous spot sale and future purchase of a currency.

TIER I CAPITAL
Consists of the sum total of paid up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves less goodwill.

TIER II CAPITAL
Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments, and approved subordinated debentures.

TOTAL CAPITAL
Is the sum of Tier I and Tier II capital.

UNIT TRUST
An undertaking formed to invest in securities under the terms of a trust deed.

VALUE ADDED
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

NOTES

NOTES

CORPORATE INFORMATION

Name of the Institution
Bank of Ceylon

Legal Form
A Banking corporation domiciled in Sri Lanka, duly incorporated on 1 August 1939 under the Bank of Ceylon Ordinance No. 53 of 1938.

A licensed commercial bank established under the Banking Act No. 30 of 1988.

Head Office
No. 4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: +94 11 2446790-811 (22 lines)
+94 11 2338741-55 (15 lines)
Telex: 21331 BOCST CE
SWIFT Code: BCEYLKLX
Website: www.boc.lk

Tax Payer Identification Number (TIN)
409000070

Board of Directors
Dr. Gamini Wickramasinghe *(Chairman)*
Mr. Sumith Abeysinghe
Mr. Chaminda Kumara Kularatne
Mr. Gunaratna Gallage
Mr. Raju Sivaraman
Dr. Buddhadasa Kaluarachchi
Mr. V Kanagasabapathy *(Alternate Director to Mr. Sumith Abeysinghe)*

Secretary to the Board
Mrs. Janaki Senanayake Siriwardane

Audit Committee
Mr. Sumith Abeysinghe *(Chairman)*
Mr. Raju Sivaraman
Mr. Chaminda Kumara Kularatne
Mr. Gunaratna Gallage
Dr. Buddhadasa Kaluarachchi
Mr. V Kanagasabapathy *(In the absence of Mr. Sumith Abeysinghe)*

Auditor
The Auditor General
(In terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka)

Credit Ratings
'AA (lka)/Stable Outlook' by Fitch Ratings Lanka Limited.

BANK OF CEYLON

Bankers to the Nation

Registered Office :
No. 4, Bank of Ceylon Mawatha,
Colombo 01, Sri Lanka.

Tel :
094 11 2446790-811 (22 lines)
094 11 2338741 –55 (15 lines)

Fax :
094 11 2321160
(AGM Customer Relations)

Telex :
21331 BOCST CE

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